

**MARYLAND SMALL BUSINESS DEVELOPMENT
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF MARYLAND)**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022



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**MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Maryland Small Business Development Financing Authority
and Secretary of the Maryland Department of Commerce
Annapolis, Maryland

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of the Maryland Small Business Development Financing Authority, a component unit 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 the Maryland Small Business Development Financing Authority'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 respective financial position of the governmental activities and the general fund of the Maryland Small Business Development Financing Authority, as of June 30, 2023 and 2022, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Maryland Small Business Development Financing Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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

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 the Maryland Small Business Development Financing Authority'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.

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 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 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, we:

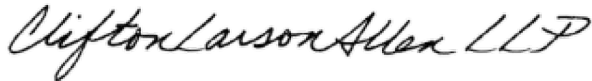
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 Maryland Small Business Development Financing Authority'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 Maryland Small Business Development Financing Authority'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.

Board of Directors
Maryland Small Business Development Financing Authority
and Secretary of the Maryland Department of Commerce

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information 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. 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.



CliftonLarsonAllen LLP

Baltimore, Maryland
March 27, 2024

**MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Overview of the Financial Statements and Financial Analysis

In accordance with generally accepted accounting principles, the Maryland Department of Commerce (the Department) presents this management's discussion and analysis of the financial statements of the Maryland Small Business Development Financing Authority (MSBDFA or the Fund) for the years ended June 30, 2023 and 2022, as compared to the year ended June 30, 2021. MSBDFA is considered a blended component unit of the State of Maryland.

This financial report consists of two primary financial statements: The statement of net position simultaneously presented with the governmental fund balance sheet, and the statement of activities concurrently presented with the governmental fund's revenues, expenditures, and changes in fund balance. The statement of net position discloses MSBDFA's net assets and related changes. Over time, change in net position is one indicator of MSBDFA's financial health. The statement of activities discloses the MSBDFA's revenues and expenses. These statements contain adjustments made to the fund statements to convert to the accrual basis of accounting – similar to the accounting used by most public-sector companies. Under the accrual basis of accounting, all of the current year's revenues and expenses are taken into account, regardless of when the cash is received or paid. The governmental fund statements provide a detailed view of MSBDFA's basic services. MSBDFA has one governmental fund, the general fund. The general fund is reported on a modified accrual basis of accounting, which measures cash and all other financial assets that can easily be converted to cash.

The relationship between governmental activities (reported in the statement of net position and the statement of activities) and governmental fund is addressed in the reconciliations included within the financial statements.

The financial statements also include notes that explain some of the information in the financial statements and provides supporting details.

Statements of Net Position

The statements of net position present the assets, liabilities, and net position of MSBDFA as of the end of each fiscal year, computed in conformity with generally accepted accounting principles. The aim of these statements is to present to the readers a fiscal snapshot of the MSBDFA program. The statements are composed of three major categories, namely assets, liabilities, and net position, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The assets section includes the monetary resources owned by the program. Here, assets are classified as current or noncurrent according to their order of liquidity and timing by which their receipt will be realized. The liability section of the statements is made up of all of the program's debts. The liabilities are classified according to due date as either current or noncurrent liabilities. The third category, net position, is the residual interest in the assets of the program that remains after deducting the amount required to satisfy the liabilities. The net position is generally separated into three broad components, namely investments in capital assets - net of related debt, restricted net position, and unrestricted net position.

From the data presented, readers of the statements of net position should be able to reasonably determine the amount of assets available to pay the expenses necessary to continue the operations of the MSBDFA programs.

**MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Statements of Net Position (Continued)

The following are MSBDFA's summarized statements of net position as of June 30, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Current Assets	\$ 20,558,476	\$ 9,746,762	\$ 10,069,678
Noncurrent Assets	9,172,822	8,911,817	13,204,285
Total Assets	<u>29,731,298</u>	<u>18,658,579</u>	<u>23,273,963</u>
LIABILITIES			
Current Liabilities	644,528	564,148	1,864,105
Total Liabilities	<u>644,528</u>	<u>564,148</u>	<u>1,864,105</u>
NET POSITION			
Unrestricted Net Position	29,086,770	18,094,431	21,409,858
Total Net Position	<u>\$ 29,086,770</u>	<u>\$ 18,094,431</u>	<u>\$ 21,409,858</u>

Fiscal Year 2023 compared to 2022

Current assets increased by \$10,907,062 in fiscal year 2023 compared to fiscal year 2022. The increase was due to an increase in cash and amounts due from the State of Maryland general fund. Noncurrent assets in fiscal year 2023 increased by \$165,657 or 1.9% over fiscal year 2022. The notable drivers for the aforementioned decrease in 2023 are due to collections from loans receivable.

Current liabilities increased by \$80,380 or 14.2% in fiscal year 2023 compared to fiscal year 2022 primarily due to an increase in accrued management. Unrestricted net position increased by \$10,992,339 or 60.7% in fiscal year 2023 compared to fiscal year 2022 as a direct result of a \$14,000,000 appropriation from the State.

Fiscal Year 2022 compared to 2021

Current assets decreased by \$322,916 in fiscal year 2022 compared to fiscal year 2021. The decrease was due to a decrease in loans receivable and prepaid expenses. Noncurrent assets in fiscal year 2022 decreased by \$4,292,468 or 32.5% over fiscal year 2021. The notable drivers for the aforementioned decrease in 2022 include a decrease in loans receivable.

Current liabilities decreased by \$1,299,957 or 69.7% in fiscal year 2022 compared to fiscal year 2021 primarily due to a decrease in accrued management fees, unearned revenue, and a decrease in reserves for guaranty losses. Unrestricted net position decreased by \$3,315,427 or 15.5% in fiscal year 2022 compared to fiscal year 2021 primarily due to an increase in provision for loan losses as a result of current year valuations.

**MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Statements of Activities

The statements of activities are the operating statements for the Maryland Small Business Development Financing Authority. The general components displayed here are revenue, expenses, nonoperating revenue and expenses, fund transfers, change in net position, and beginning and ending balances of net position.

The objective of this statement is threefold:

- To present revenue generated by program operations and those received from nonoperating activities.
- To show monies expended to operate the program, including losses on bad debts, claims paid as a result of a customer's default under a loan guaranty or a surety bond, and funds derived from the State Treasury.
- Finally, this statement's bottom line objective is to display the total change (increase or decrease) in net position during a particular period.

A summary statement of activities appears below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues	\$ 648,769	\$ 593,813	\$ 775,101
Expenses	<u>3,985,518</u>	<u>5,459,113</u>	<u>9,393,851</u>
Net Program Expense	(3,336,749)	(4,865,300)	(8,618,750)
General Revenues (Expenses)	<u>329,088</u>	<u>-</u>	<u>(6,240)</u>
Net Loss before Transfer	(3,007,661)	(4,865,300)	(8,624,990)
Total Transfers	<u>14,000,000</u>	<u>1,549,873</u>	<u>11,512,272</u>
Change in Net Position	10,992,339	(3,315,427)	2,887,282
Net Position - Beginning of Year	<u>18,094,431</u>	<u>21,409,858</u>	<u>18,522,576</u>
Net Position - End of Year	<u>\$ 29,086,770</u>	<u>\$ 18,094,431</u>	<u>\$ 21,409,858</u>

Fiscal Year 2023 compared to 2022

MSBDFAs overall financial operating results show the following:

Revenues increased by \$54,956 or 9.3% in fiscal year 2023 compared to the preceding year. The increase in revenue is primarily due to increased recoveries offset by reduced interest income on loans receivable. Expenses decreased by \$1,473,595 during the fiscal year 2023, due primarily to decreases in loan losses and forgiveness.

General revenues (expenses) (excluding State appropriations and fund transfers) was \$329,088 in fiscal year 2023 due to interest income. The State appropriations that were funded for fiscal year 2023 was \$14,000,000.

**MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Statements of Activities (Continued)

Fiscal Year 2022 compared to 2021

MSBDFA's overall financial operating results show the following:

Revenues decreased by \$181,288 or 23% in fiscal year 2022 compared to the preceding year. The decrease in revenue is primarily due to reduced interest income on loans receivable. Expenses decreased by \$3,934,738 during the fiscal year 2022, due primarily to increases in provision for loan losses net a decrease in management fees and grants.

The State appropriations that were funded for fiscal year 2022 was \$1,549,873.

Economic Outlook

The Department anticipates that MSBDFA will continue to be a primary resource for businesses owned by economically and socially disadvantaged entrepreneurs, and small businesses that do not meet the credit criteria of financial institutions, and consequently are unable to qualify for loans through normal financing channels.

At the end of fiscal year 2023, the program had one hundred (100) active accounts with maximum exposure of \$21,608,118. There were thirty one (31) approvals in fiscal year 2023 for \$12,047,500 of those approvals one (1) was a loan for \$305,000 with a Guaranty of \$152,500, one (1) was Surety for \$1,500,000, (19) were EPIP Small Business for \$4,708,000, four (4) EPIP SSBCI Loans for \$2,923,000, five (5) EPIP InvestMD for \$2,550,000, and one (1) EPIP loan increase for \$61,500. Settlements in fiscal year 2023 were \$6,824,500, which made up thirteen (13) transactions. Of the settlements, four (4) were EPIP Small Business for \$720,000, two (2) were EPIP SSBCI Loan for \$2,293,000 six (6) were EPIP InvestMD for \$3,750,000, and one (1) EPIP Loan increase for \$61,500.

MSBDFA is part of the State's application to receive \$45 million from the State Small Business Credit Initiative (SSBCI) funds approved under the American Rescue Act. The first of three tranches of SSBCI funds have been received. Commerce has deployed \$2,293,000 of its first tranche at the end of the fiscal year and is expected to receive the next tranche in the Spring of 2024.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
STATEMENTS OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEETS
JUNE 30, 2023 AND 2022

	2023			2022		
	General Fund	Adjustments	Statement of Net Position	General Fund	Adjustments	Statement of Net Position
ASSETS						
Current Assets:						
Equity in Pooled Invested Cash	\$ 18,836,778	\$ -	\$ 18,836,778	\$ 8,158,922	\$ -	\$ 8,158,922
Loans Receivable, Net of Allowance of \$147,245 and \$327,808, Respectively	1,563,191	-	1,563,191	1,186,639	-	1,186,639
Accrued Interest Receivable	158,507	-	158,507	401,201	-	401,201
Total Current Assets	<u>20,558,476</u>	-	<u>20,558,476</u>	<u>9,746,762</u>	-	<u>9,746,762</u>
Noncurrent Assets:						
Loans Receivable, Net of Current Portion and Allowance of \$486,605 and \$2,008,667, Respectively	4,547,091	-	4,547,091	7,271,231	-	7,271,231
Economic Development Investments	1,210,145	-	1,210,145	800,000	-	800,000
Economic Development Notes Receivable	3,415,586	-	3,415,586	840,586	-	840,586
Total Noncurrent Assets	<u>9,172,822</u>	-	<u>9,172,822</u>	<u>8,911,817</u>	-	<u>8,911,817</u>
Total Assets	29,731,298	-	29,731,298	18,658,579	-	18,658,579
LIABILITIES						
Current Liabilities:						
Accrued Expenses	62,769	-	62,769	-	-	-
Unearned Insurance Fees	2,642	-	2,642	3,446	-	3,446
Reserve for Guaranty Losses	78,359	-	78,359	59,944	-	59,944
Reserve for Guaranty Losses - Federal	500,758	-	500,758	500,758	-	500,758
Total Liabilities	<u>644,528</u>	-	<u>644,528</u>	<u>564,148</u>	-	<u>564,148</u>
FUND BALANCE						
Nonspendable	10,736,013	(10,736,013)	-	10,098,456	(10,098,456)	-
Assigned	18,350,757	(18,350,757)	-	7,995,975	(7,995,975)	-
Total Fund Balance	<u>\$ 29,086,770</u>	<u>(29,086,770)</u>	-	<u>\$ 18,094,431</u>	<u>(18,094,431)</u>	-
NET POSITION						
Unrestricted Net Position		<u>29,086,770</u>	<u>29,086,770</u>		<u>18,094,431</u>	<u>18,094,431</u>
Total Net Position		<u>\$ -</u>	<u>\$ 29,086,770</u>		<u>\$ -</u>	<u>\$ 18,094,431</u>

See accompanying Notes to Financial Statements.

**MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
REVENUES		
Interest Income on Loans Receivable	\$ 135,071	\$ 383,588
Insurance/Guarantee Fees	28,165	60,803
Recoveries	423,584	124,112
Other Income	50,999	4,687
Capitalized Interest	10,950	20,623
Total Revenues	648,769	593,813
EXPENSES/EXPENDITURES		
Management Fees	1,759,484	1,467,768
Other Direct Expenses	716	13,755
Administrative Allocations	655,652	940,664
Provision for Loan Losses	1,551,251	2,771,111
Grants	-	237,800
Loan Losses	-	56,758
Provision for Insurance Losses (Recoveries)	18,415	(28,743)
Total Expenses/Expenditures	3,985,518	5,459,113
NET PROGRAM EXPENSE/EXPENDITURES	(3,336,749)	(4,865,300)
GENERAL REVENUES AND TRANSFERS		
Treasury Interest Income	329,088	-
State Transfers	14,000,000	1,549,873
Net General Revenues and Transfers	14,329,088	1,549,873
CHANGE IN FUND BALANCE / NET POSITION	10,992,339	(3,315,427)
Fund Balance / Net Position - Beginning of Year	18,094,431	21,409,858
FUND BALANCE / NET POSITION - END OF YEAR	\$ 29,086,770	\$ 18,094,431

See accompanying Notes to Financial Statements.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 ORGANIZATION

Authorizing Legislation

The Maryland Small Business Development Financing Authority (MSBDFA or the Fund) was established by the State of Maryland in 1978 and is governed by the Economic Development Article and the MSBDFA programs are contained in Sections 5-501 through 5-575. MSBDFA is administered by the Department of Commerce (the Department). MSBDFA's purpose is to assist socially or economically disadvantaged entrepreneurs and small businesses in the creation and expansion of Maryland businesses. The programs can extend financial assistance to small businesses that are unable to obtain adequate business financing on reasonable terms through normal financing channels.

During the 2002 session of the Maryland General Assembly, the statutes concerning eligibility were broadened to include businesses other than those that are determined to be socially or economically disadvantaged. More specifically, the new law allowed MSBDFA to extend financial assistance to small businesses that are unable to obtain adequate business financing on reasonable terms through normal financing channels.

As established under Sections 5-506 of the Annotated Code of Maryland MSBDFA is governed by a seven-member board and two ex officio members (the Secretary and Treasurer or Comptroller), which are appointed for five-year terms by the Governor of Maryland. MSBDFA is considered a component unit of the State of Maryland (the State) for financial reporting purposes and is included in the financial statements of the State of Maryland.

Description of the Maryland Small Business Development Financing Authority

MSBDFA currently offers assistance through the following programs:

Contract Financing Fund Program

This program offers financial assistance through direct loans and guarantees of loans to provide working capital to eligible businesses to complete work on contracts, for which the majority of funding is provided by federal, state, or local government agencies or utilities regulated by the Public Service Commission.

Long-Term Guaranty Fund Program

This program offers financial institutions loan guarantees and payments of interest subsidies on loans made to eligible businesses to be used for working capital, the acquisition of machinery and equipment and real property (if such property is to be used in the applicant's business) and improvements to real property owned or leased by the applicant.

Surety Bond Fund Program

Under this program, MSBDFA provides bonding assistance to eligible small businesses to qualify for and complete work on contracts, for which the majority of funding is provided by state or local government agencies or utilities regulated by the Public Service Commission. The Program may also provide assistance for contracts with private entities that display the financial capacity to fund a proposed contract. MSBDFA can directly issue a bid performance or payment bonds or guaranty a surety's losses incurred as a result of the contractor's breach of a bid, performance, or payment bond.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 ORGANIZATION (CONTINUED)

Description of the Maryland Small Business Development Financing Authority (Continued)

Equity Participation Investment Program (EPIP)

This program was created with the explicit purpose of encouraging and aiding in the creation, development, expansion, and retention of franchises, technology-based and other traditional businesses and the acquisition of existing businesses to be located in Maryland. The EPIP provides equity investments, loans and loan guarantees to achieve its objectives.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Fund's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

MSBDFA is one of many programs administered by the Department. The Fund has no direct employees and is entirely supported by staff at the Department to perform all necessary functions of the MSBDFA. The Department allocates certain operating, general, and administrative costs to MSBDFA, which is the Department's estimate of its cost to manage and administer the Fund's operations. This allocation from the Department is not necessarily representative of the Fund's costs. The Department allocated expenses to MSBDFA of \$655,652 and \$940,664 for the years ended June 30, 2023 and 2022, respectively.

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

Blended Component Unit of MSBDFA

Component units are legally separate organizations for which the Fund is accountable for purposes of financial reporting. Blended component units, although legally separate from the Fund, are part of the Fund's operations in substance. The Maryland Equity Participation Investment Fund, LLC (the Company) was established to make direct equity investments under the Equity Participation Investment Program (EPIP). The Department is the sole owner of the company and the Fund includes the Company activity within its fund financial statements and within applicable activities in its government-wide financial statements. Separate financial statements for the Company are not prepared.

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus. The statement of net position and the statement of activities display information about the Fund as a whole. These statements include the financial activities of the primary government. All financial activities of the Fund are classified as governmental.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

The statement of net position presents the financial condition of the Fund as of year-end. All expenses relate to the operations of the Fund. Revenues consist of interest income on loans, insurance premiums and guaranty fees, and investment income from small business investments. Expenses include expenses relating provisions for loan and guaranty losses and administrative expenses. All other revenues relate to appropriations from the state of Maryland and interest income. Transfers consisted of annual appropriations and a special transfer from another fund of the State of Maryland.

Fund Financial Statements – Governmental Fund

The governmental accounts of the Fund are organized on the basis of funds and consist only of the general fund, which is considered a separate accounting entity. The operations of the general fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures, as appropriate. The governmental fund financial statements are reported using the current financial resources measurement focus.

Basis of Accounting

Government-wide financial statements are prepared using the economic resources measurement focus and accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund is accounted for using the current resources measurement focus and modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to pay liabilities of the current fiscal year. For the fund, available means expected to be received within 60 days of year-end. Intergovernmental revenues are susceptible to accrual. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Expenditures are recognized when the liability is incurred.

Use of Estimates

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

Cash and Equity in Pooled Invested Cash

Cash consists of demand deposits and equity in pooled invested cash is comprised of cash held with the State Treasurer.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable

Loans receivables are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Loans that are due within one year are classified as current assets, and all other loans are classified as noncurrent assets. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense.

Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible because of present conditions, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, portfolio quality, review of specific problems regarding the loans, and current economic conditions that may affect the borrower's ability to pay. The allowance for loan losses is based on estimates, and ultimate losses may vary from the current estimates. The allowance for loan losses has been allocated between current and noncurrent loan balances.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported through the provision for loan losses in the periods in which they become known. Accrual of interest is discontinued on a loan when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful.

Economic Development Investments

Economic Development Investments consist of certain equity securities through the Equity Participation Investment Program. These businesses do not have a proven history of profitability. As such, the future financial condition and operating results of the businesses are uncertain, and the market value of the Fund's investments could be significantly affected.

These investments utilize the cost method to record the acquisition of such investments, as the MSBDFA lacks the ability to exercise significant control. Under the cost method, the Authority records the investment at its historical cost and recognizes as income dividends received from net earnings of the Fund. Dividends received in excess of earnings are considered a return of investment and reduce the cost basis. These investments typically have a long time horizon from when the Funds makes its initial investment to when it may receive any return on the investment.

Economic Development Notes Receivable

Economic Development Notes Receivable consist of certain convertible notes through the Equity Participation Investment Program. The notes are reported at net realizable value based on the determined collectability of the note.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve for Guaranty Losses

MSBDFFA has provided partial guaranties on loans and bonds. Outstanding guaranties range from 20% to 80% of the outstanding loan and bond balances. The reserve for guaranty losses is estimated to provide losses on existing insured loans. The amount of such reserve is estimated based on a continuing review of outstanding guaranties, loss experience, and estimated liquidation values of underlying collateral and economic conditions, which may affect each borrower's ability to pay. Such estimates are susceptible to change in the near term due to changing economic conditions, the value of the collateral and paying capacity of the borrower and, where applicable, guarantors. Therefore, actual results could differ significantly from those estimates. As of June 30, 2023 and 2022, MSBDFFA had a reserve for guaranty losses of \$579,117, and \$560,702, respectively.

Unearned Insurance Fees

Unearned Insurance fees represent premiums paid for loan guaranty insurance that has not been earned. Revenue is recognized monthly on a straight-line basis. As of June 30, 2023 and 2022, MSBDFFA had unearned insurance fees of \$2,642 and \$3,446, respectively.

Unearned Revenue

Unearned revenue consists primarily of funds received that have not been used for the designated purpose by year-end.

Fund Balance

GASB 54 requires that fund balance amounts be properly reported within one of the fund balance categories listed below.

Nonspendable – Includes fund balance amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories, prepaid expenses and the long term portion of notes receivable.

Restricted – Includes amounts that are restricted to specific purposes when constraints are placed on the use of resources by constitution, external resource providers, or through enabling legislation.

Committed – Includes fund balance amounts that can be used only for the specific purposes determined by formal action. In Maryland, the uses of these funds are established in statute after appropriate action by the General Assembly and the Governor.

Assigned – Includes fund balance amounts that are intended to be used by the Fund for specific purposes as determined by the management of the Fund.

Unassigned – Represents the residual classification for the Fund's general fund and includes all spendable amounts not contained in the four classifications described above.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position is the residual difference of assets less liabilities. Net position as reported in the government-wide statement of net position is reported in three categories: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation (and related debt, if any). Restricted net position results when external restrictions are imposed on net position through law or regulation. Unrestricted net position consists of items that do not meet the definition of the preceding two categories.

As of June 30, 2023 and 2022, 100% of the Fund's net position is unrestricted and can be utilized for any operational purpose of the Fund.

Budgetary Data

Budgets are adopted by the State of Maryland; however, budgets are not legally required for the Fund. Therefore, presentation of budgetary comparison information is not required supplementary information and is not presented.

NOTE 3 CASH AND EQUITY IN POOLED CASH

Cash receipts and disbursements of the Fund are made through a cash pool maintained by the State Treasurer. The State Treasurer has statutory responsibility for the State's cash management activities. The State Treasurer maintains these and other State agency funds on a pooled basis in accordance with State statutes. For additional information on the risk of cash, see the State of Maryland Annual Comprehensive Financial Report (ACFR).

Custodial Credit Risk – Deposits

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

As of June 30, 2023 and 2022, MSBDFA had cash deposits of \$18,836,778 and \$8,158,922 with the State Treasury, respectively.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 LOANS RECEIVABLE

Loans receivable as of June 30 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Loans Receivable - Beginning of Year	\$ 10,794,345	\$ 14,286,420
Loans Disbursements	3,183,193	5,168,173
Loans Written Off	(3,253,876)	(1,726,332)
Proceeds from Collections	(3,990,582)	(6,954,539)
Capitalized Interest	11,052	20,623
Loans Receivable - End of Year	<u>6,744,132</u>	<u>10,794,345</u>
Allowance for Loan Loss	(633,850)	(2,336,475)
Net Loans Receivable - End of Year	<u><u>\$ 6,110,282</u></u>	<u><u>\$ 8,457,870</u></u>

Activities in the allowance for loan losses for the years ended June 30 were as follows:

	<u>2023</u>	<u>2022</u>
Balance - Beginning of Year	\$ 2,336,475	\$ 1,291,696
Loans Written Off	(3,253,876)	(1,726,332)
Provision for Loan Loss	1,551,251	2,771,111
Balance - End of Year	<u><u>\$ 633,850</u></u>	<u><u>\$ 2,336,475</u></u>

NOTE 5 ECONOMIC DEVELOPMENT INVESTMENTS

MSBDFFA provides equity investments to small businesses through the Equity Participation Investment Program (EPIP). The Fund utilizes the cost method as the measurement basis.

There were no returns on any of its investments in either fiscal year 2023 or 2022.

Economic development investments costs as of June 30 were comprised of the following:

<u>Investment</u>	<u>2023</u>	<u>2022</u>
Mid Atlantic Broadband	\$ 500,000	\$ 500,000
Compost Crew, Inc. (formerly ZWE Logistics, LLC)	210,145	-
Aidar Health, Inc.	200,000	-
Everywhere Communications, Inc.	300,000	300,000
Total	<u><u>\$ 1,210,145</u></u>	<u><u>\$ 800,000</u></u>

NOTE 6 ECONOMIC DEVELOPMENT NOTES RECEIVABLE

The Fund provides loan investments to small businesses through the EPIP. The loans represent convertible promissory notes that will convert to equity securities if certain conditions are met.

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 ECONOMIC DEVELOPMENT NOTES RECEIVABLE (CONTINUED)

The values of these receivables are stated at net realizable value, which management estimates to be fair market value. Economic development notes receivable as of June 30 were comprised of the following:

Project	2023	2022
Mid Atlantic Metro Broadband	\$ 194,973	\$ 194,973
Mid Atlantic Metro Broadband	25,613	25,613
Lessoncast Learning LLC	220,000	220,000
Keep Company, Inc.	100,000	-
Precise Telehealth, Inc.	200,000	200,000
Compost Crew, Inc. (formerly ZWE Logistics, LLC)	-	200,000
Interbiome, LLC	750,000	-
Orcana Biotech, LLC	600,000	-
The Magruder Project, Inc.	75,000	-
Swee10, Inc.	1,250,000	-
Total	<u>\$ 3,415,586</u>	<u>\$ 840,586</u>

NOTE 7 RESERVE FOR GUARANTY LOSSES

The Fund offers financial institutions guarantees on loans made to eligible businesses. A summary of the total outstanding loans and bonds and the applicable insurance as of June 30 was as follows:

	2023		2022	
	Original Balance	Outstanding Balance	Original Balance	Outstanding Balance
Loans and Bonds	<u>\$ 29,858,893</u>	<u>\$ 19,887,949</u>	<u>\$ 32,390,770</u>	<u>\$ 21,519,242</u>
Insurance	<u>\$ 3,283,590</u>	<u>\$ 2,014,164</u>	<u>\$ 3,568,590</u>	<u>\$ 2,418,110</u>

The maximum exposure to MSBDFA, including available borrowings under the lines of credit agreements as of June 30, 2023 and 2022 was \$21,608,117 and \$23,788,294, respectively.

Changes in the reserve for guaranty losses for the years ended June 30 were as follows:

	2023	2022
Balance - Beginning of Year	\$ 560,702	\$ 830,338
Claim Payment	-	(240,893)
Provision for Guaranty Losses	18,415	(28,743)
Balance - End of Year	<u>\$ 579,117</u>	<u>\$ 560,702</u>

MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 MANAGEMENT AGREEMENT

The Department has entered into a contract with Meridian Management Group, Inc. (MMG), a Maryland corporation, to provide management services to MSBDFA. Such services include, underwriting, loan closing, and certain loan administration. MSBDFA retains approval authority over all proposed transactions under its different programs, and the Department will continue to provide certain accounting and administrative functions subsequent to loan closing. The Department has entered into an extension with MMG until the end of March 31, 2024. Minimum annual payments on this contract are approximately \$1.7 million, plus monitoring fees.

NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS

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

The System prepares a separate ACFR which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

NOTE 10 COMMITMENTS AND CONTINGENCIES

In the normal course of operations, certain claims may be brought against the Fund. Management believes that the ultimate resolution of such claims would not have a material adverse effect on MSBDFA's financial position. As of June 30, 2023 and 2022, MSBDFA had outstanding funding commitments in the amount of \$2,170,952 and \$3,215,671, respectively.

NOTE 11 RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.



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