

**MARYLAND SMALL BUSINESS RETIREMENT SAVINGS
PROGRAM**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2019 AND FOR THE
PERIOD FROM INCEPTION (JUNE 1, 2018) TO DECEMBER 31,
2018**



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**MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
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(JUNE 1, 2018) TO DECEMBER 31, 2018**

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INDEPENDENT AUDITORS' REPORT

To the Members and Board of Trustees
Maryland Small Business Retirement Savings Program
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland Small Business Retirement Savings Program (the Program), a component unit of the State of Maryland, which comprise the statements of net position, as of December 31, 2019 and 2018, and the related statements of changes in net position, and cash flows for the year ended December 31, 2019, and the period ended from inception (June 1, 2018) to December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Members and Board of Trustees
Maryland Small Business Retirement Savings Program

Opinion

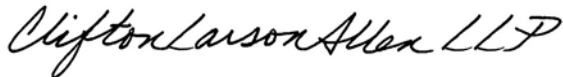
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of December 31, 2019 and 2018, and the results of its changes in net position and cash flows for the year ended December 31, 2019, and the period from inception (June 1, 2018) to December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Maryland Small Business Retirement Savings Program and do not purport to, and do not, present fairly the financial position of the State of Maryland as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



CliftonLarsonAllen LLP

Baltimore, Maryland
July 24, 2020

**MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents	1,516,241	1,111,546
Prepaid Assets and Security Deposits	6,877	2,846
Capital Assets, Net	4,779	7,318
Total Assets	<u>1,527,897</u>	<u>1,121,710</u>
LIABILITIES		
Accrued Expenses	102,937	13,700
Due to State of Maryland	2,204,800	1,304,800
Total Liabilities	<u>2,307,737</u>	<u>1,318,500</u>
NET POSITION / (DEFICIT)		
Net Investment in Capital Assets	4,779	7,318
Unrestricted	(784,619)	(204,108)
Net Deficit	<u>\$ (779,840)</u>	<u>\$ (196,790)</u>

**MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2019 AND THE PERIOD FROM INCEPTION (JUNE 1, 2018) TO
DECEMBER 31, 2018**

	<u>2019</u>	<u>2018</u>
OPERATING EXPENSE		
Salaries, Wages, and Benefits	\$ 307,349	\$ 143,627
Insurance	55,454	19,905
Facilities Operations	15,898	9,250
Advertising	4,291	9,000
Travel	5,057	1,537
General Expenses	196,414	12,388
Depreciation	2,539	1,547
Total Operating Expenses	<u>587,002</u>	<u>197,254</u>
OPERATING LOSS	(587,002)	(197,254)
NONOPERATING REVENUES		
Interest income	<u>3,952</u>	<u>464</u>
CHANGE IN NET POSITION	(583,050)	(196,790)
Net Position - Beginning of Year	<u>(196,790)</u>	<u>-</u>
NET DEFICIT - END OF YEAR	<u>\$ (779,840)</u>	<u>\$ (196,790)</u>

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
STATEMENTS OF CASH FLOW
YEAR ENDED DECEMBER 31, 2019 AND FOR THE PERIOD FROM INCEPTION (JUNE 1, 2018)
TO DECEMBER 31, 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Paid to Suppliers	\$ (200,885)	\$ (47,970)
Cash Paid to Employees	(298,372)	(136,883)
Net Cash Used by Operating Activities	<u>(499,257)</u>	<u>(184,853)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Note Payable	900,000	1,304,800
Net Cash Provided by Financing Activities	<u>900,000</u>	<u>1,304,800</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	-	(8,865)
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(8,865)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	3,952	464
Net Cash Provided by Investing Activities	<u>3,952</u>	<u>464</u>
NET INCREASE IN CASH AND CASH EQUIVELANTS	404,695	1,111,546
Cash and Cash Equivalents - Beginning of Year	<u>1,111,546</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,516,241</u>	<u>\$ 1,111,546</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (587,002)	\$ (197,254)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	2,539	1,547
(Increase) Decrease in Assets:		
Prepaid Assets and Security Deposits	(4,031)	(2,846)
Increase (Decrease) in Liabilities:		
Accrued Expenses	89,237	13,700
Total Adjustments	<u>87,745</u>	<u>12,401</u>
Net Cash Used by Operating Activities	<u>\$ (499,257)</u>	<u>\$ (184,853)</u>

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND FOR THE PERIOD FROM INCEPTION (JUNE 1, 2018) TO
DECEMBER 31, 2018

NOTE 1 ORGANIZATION

In July 2016, the Maryland Small Business Retirement Savings Board (Board) was authorized by Chapter 324, Acts of 2016. The Board was established to implement, maintain, and administer the Maryland Small Business Retirement Savings Program, also known as MarylandSaves (the Program) and the Maryland Small Business Retirement Savings Trust (the Trust).

The program was established as a body corporate and politic and a public instrumentality of the state of Maryland (the State) and is a discretely presented component unit of the State of Maryland. As such, its activity is included in the Comprehensive Annual Financial Report of the State of Maryland as a discretely presented component unit.

The financial statements present only the Program, and do not purport to, and do not, present the net position or activity of the State of Maryland.

The Board consists of eleven members which include the Maryland State Treasurer and, the Secretary of Labor, ex-officio, and 3 members each appointed by the Governor, the President of the Senate, and the Speaker of the House of Delegates. Operations of the organization started June 1, 2018.

Under the Program, Maryland employees of employers that do not offer workplace retirement savings are eligible to be enrolled in an Individual Retirement Account (IRA) through an employee payroll deduction plan. Anyone who is automatically enrolled may choose a different contribution rate or opt out of the program entirely. The Program will arrange for a selection of privately-managed investment options, with a default option in the absence of an employee's specific selection. Employers that participate in the Program or offer any other form of workplace retirement savings will receive a \$300 credit via waiver of certain State filing fees.

The Program and Employers that participate in the Program have no interest in the contributions to or earning on amounts contributed to accounts established under the Program. The Board acts as a fiduciary with respect to the investments offered by the Program.

The Program defines its financial reporting entity in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units—an amendment of GASB Statement No. 14* and GASB Statement No. 61, *The Financial Reporting Entity—Omnibus*. A component unit is a legally separate organization for which the primary government is financially accountable or closely related. The Program is financially accountable if it appoints a voting majority of a potential component unit's governing body and is able to impose its will on that potential component unit, or there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the Program. Based on these criteria, the Program has no component units.

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND FOR THE PERIOD FROM INCEPTION (JUNE 1, 2018) TO
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Program's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standard Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Program is an enterprise fund and prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The Program distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Program's ongoing operations. The principal operating revenues of the Program will be administrative fees received from program participants. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Program has received startup loans from the State of Maryland, see Note five for the amounts reported and repayment terms.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Program considers all highly liquid instruments, which are to be used for current operations and which have an original maturity of three months or less, to be cash and cash equivalents.

Capital Assets

Capital assets are recorded at cost. The Program capitalizes all expenditures for property and equipment over \$1,000. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 7 years. When assets are sold or otherwise disposed, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND FOR THE PERIOD FROM INCEPTION (JUNE 1, 2018) TO
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Expenses

Accrued expenses represent cost incurred as of yearend that have not yet been paid. These expenses have been included in total operating expenses reported on the statement of revenue, expenses, and change in net position.

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The Program did not have any deferred outflows or deferred inflows at December 31, 2019 and 2018. Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowing used for the acquisition of those assets. Unrestricted net position represents resources available to meet the general operations of the Program and may be used to meet current expenses for any purpose. If both restricted and unrestricted assets are available for expenditure, the decision as to which assets are used first is left to the discretion of the Program.

Income Taxes

The Program, as a political subdivision of the State of Maryland, is exempt from Federal income taxes under section 115(1) of the Internal Revenue Code, as amended.

NOTE 3 CASH AND CASH EQUIVALENTS

The Program's cash and cash equivalents balance by type for the years ended December 31, were as follows:

	2019	
	Carrying Amount	Bank Balance
Demand Deposits at Financial Institutions	\$ 94,864	\$ 94,864
Cash Equivalents/Money Market Accounts	1,421,377	1,436,607
Total	\$ 1,516,241	\$ 1,531,471
	2018	
	Carrying Amount	Bank Balance
Demand Deposits at Financial Institutions	\$ 12,072	\$ 12,072
Cash Equivalents/Money Market Accounts	1,099,474	1,099,474
Total	\$ 1,111,546	\$ 1,111,546

Custodial credit risk is the risk that in the event of a bank failure, the Program's deposits may not be returned to it. At December 31, 2019 and 2018, the Program had \$264,607 and \$849,474 in excess of the FDIC insured limit, which is uninsured and uncollateralized as of December 31, 2019 and 2018, respectively.

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND FOR THE PERIOD FROM INCEPTION (JUNE 1, 2018) TO
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NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, and period from inception, June 1, 2018 to December 31, 2018, was as follows:

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019
Depreciable Capital Assets:				
Furniture and Equipment	\$ 8,865	\$ -	\$ -	\$ 8,865
Less: Accumulated Depreciation	1,547	2,539	-	4,086
Total	<u>\$ 7,318</u>	<u>\$ (2,539)</u>	<u>\$ -</u>	<u>\$ 4,779</u>

	Balance 6/1/2018	Additions	Deletions	Balance 12/31/2018
Depreciable Capital Assets:				
Furniture and Equipment	\$ -	\$ 8,865	\$ -	\$ 8,865
Less: Accumulated Depreciation	-	1,547	-	1,547
Total	<u>\$ -</u>	<u>\$ 7,318</u>	<u>\$ -</u>	<u>\$ 7,318</u>

NOTE 5 DUE TO STATE OF MARYLAND

The Program entered into a memorandum of understanding with the State of Maryland Department of Labor (the Department) to provide loan funds for the implementation, maintenance and administration for the Program. The Department issued three loans in the amount of \$404,800, \$900,000, and \$900,000 on the dates of May 24, 2018, August 28, 2018, and July 2, 2019, respectively. The terms of the loan call for principal to be repaid as the Program becomes self-sufficient but no later than seven years from the date of each funding with no interest.

A summary of changes in long-term debt was as follows:

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019
Payable to State of Maryland	<u>\$ 1,304,800</u>	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ 2,204,800</u>

	Balance 6/1/2018	Additions	Deletions	Balance 12/31/2018
Payable to State of Maryland	<u>\$ -</u>	<u>\$ 1,304,800</u>	<u>\$ -</u>	<u>\$ 1,304,800</u>

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
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NOTE 6 LEASES

The Program leases its office facility under an operating lease agreement with the initial lease term ending in June 2021. The lease agreement calls for monthly rental payments ranging from \$1,081 to \$1,181. Rent expense for the year ended December 31, 2019 and the period from inception (June 1, 2018) to December 31, 2018 was \$13,289 and \$6,136, respectively.

Minimum annual lease payments under non-cancelable lease agreements are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 13,758
2021	6,338
Total	<u>\$ 20,096</u>

NOTE 7 PENSION BENEFITS

Employees of the Program who are at least 18 years old and have performed services for the Program for at least 1 year may enroll in a Simplified Employee Pension Individual Retirement Account (IRA). A simplified employee pension, or “SEP,” is a special traditional IRA plan that permits employers to make deductible contributions to the separate traditional IRAs established for their employees. Employer contributions to each employee’s SEP-IRA may not exceed 25% of compensation or \$57,000 for 2019. Contributions for the year ended December 31, 2019 were \$12,617. Employer contributions are immediately vested and amounts in the SEP-IRA are available to participants in accordance with Internal Revenue Service guidelines for such plans. Each employee makes the investment decisions for his or her own account.

NOTE 8 RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. The Program assumes liability for any deductible and claims in excess of coverage limitations. Settled claims have not exceeded commercial insurance coverage in any of the last three fiscal years.

NOTE 9 SUBSEQUENT EVENTS

Subsequent to year end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Program, COVID-19 may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness and program implementation deadlines.

MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 SUBSEQUENT EVENTS (CONTINUED)

Management believes the Program is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year end and are still developing.

Subsequent to year end, the Program modified its cash policies and procedures to minimize the exposure to custodial credit risk for its cash deposits. As of February 29, 2020, the demand deposits at financial institutions were \$1,396,563 and their carrying value was \$1,396,563, all deposits were covered by Federal Depository Insurance.