

MARYLAND ABLE

**Financial Statements Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2023

MARYLAND ABLE

**Financial Statements Together with
Reports of Independent Public Accountants**

JUNE 30, 2023

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REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the Treasurer of the State of Maryland

Opinion

We have audited the financial statements of the fiduciary activities of the Maryland ABLE Program (the Program) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Program'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 financial position of the fiduciary activities of the Program as of June 30, 2023, and the respective changes in financial position thereof for the year 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). 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 the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Program'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 controls 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 Program'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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 controls. 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 controls 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 the Program's internal controls. 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 the Program'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.

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



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an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Owings Mills, Maryland
October 27, 2023

SB & Company, LLC

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Management's Discussion and Analysis For the Year Ended June 30, 2023

Our discussion and analysis of the Maryland ABLE Program (the Program) financial performance provides an overview of the Program's financial activities for the year ended June 30, 2023. Please read it in conjunction with the Program's basic financial statements, which begin on page 8.

The ABLE Program was designed to provide people with qualified disabilities a new way to save and invest for their future without jeopardizing access to Federal and state means tested benefits. The Program permits the Beneficiary of an ABLE Account to contribute and invest funds, enjoy tax-free growth on the earnings of the account, and make tax-free withdrawals to pay for Qualified Disability Expenses. Amounts in an ABLE Account up to \$100,000 are disregarded for purposes of determining the Beneficiary's eligibility to receive benefits under the Federal Supplemental Security Income program (SSI), and all amounts in an ABLE Account are to be disregarded in determining the Beneficiary's eligibility to receive benefits under any other Federal or state means-tested program.

Financial Highlights

- The Program reported net position of \$67.7 and \$48.9 million as of June 30, 2023 and 2022, respectively.
- The Program's net position increased by \$18.8 million in fiscal year 2023 and increased by \$13.8 in fiscal year 2022. Increases or decreases for fiscal year fiduciary net position are usually the result of market conditions.
- The Program's additions to net position in fiscal year 2023 was \$26.8 million versus additions to fiduciary net position in fiscal year 2022 of \$20.5 million.
- The Program's deductions from net position in fiscal year 2023 and 2022, was \$8.0 million and \$6.7 million, respectively, and primarily made up of distributions to account holders.

USING THIS ANNUAL REPORT

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements consist of the statements of fiduciary net position and changes in fiduciary net position.

Statement of Fiduciary Net Position

The Statement of Fiduciary Net Position presents the assets, liabilities, and net position of the Program as of June 30, 2023. This statement, along with the Program's Statement of Changes in Fiduciary Net Position, is prepared using the accrual basis of accounting. Under this method of accounting, revenues and assets are recognized when enrollment materials and contributions are

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Management's Discussion and Analysis For the Year Ended June 30, 2023

received in good order, distributions from an Account are recognized when paid, and expenses and liabilities are recognized when services are provided, regardless of when cash is exchanged.

Statement of Changes in Fiduciary Net Position

Changes in net position as presented on the Statement of Changes in Fiduciary Net Position are based on the activity of the Program. The purpose of this statement is to present Account contributions, increases or decreases in the fair value of investments, and distributions from the Program. Additions represent contributions to Accounts in the Program and investment income. Deductions represent distributions from Accounts.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 10-14 of this report.

FINANCIAL INFORMATION

The following financial information was derived from the financial statements as of June 30, 2023 and 2022 (in 000's).

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 38,751	\$ 28,036
Investments, at fair value	28,895	20,823
Accounts receivable	31	45
Due from primary government	90	66
Total Current Assets	<u>67,767</u>	<u>48,970</u>
LIABILITIES		
Current liabilities		
Accounts payable	67	30
Compensated absences	31	24
Total current liabilities	<u>98</u>	<u>54</u>
NET POSITION	<u>\$ 67,669</u>	<u>\$ 48,916</u>

The fiscal year 2023 increase in assets of \$18.8 million is due mainly to favorable market conditions and contributions.

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Management's Discussion and Analysis For the Year Ended June 30, 2023

CONDENSED FINANCIAL INFORMATION (continued)

The following financial information was derived from the changes in net position for the years ended June 30, 2023 and 2022 (in 000's).

	<u>2023</u>	<u>2022</u>
ADDITIONS		
Contributions		
Account holder contributions	\$ 22,951	\$ 23,101
Account fees	178	147
Management fee	83	54
Grants	300	335
Interest	115	26
Total Contributions	<u>23,627</u>	<u>23,663</u>
Investment income		
Investment income	3,166	(3,136)
Total Additions	<u>26,793</u>	<u>20,527</u>
DEDUCTIONS		
Distributions		
Distributions to account holders	7,411	6,122
Salaries	291	267
Contractual services	32	88
Administrative expense	127	83
Account fees	179	147
Total Deductions	<u>8,040</u>	<u>6,707</u>
Change in net position	18,753	13,820
Total net position, beginning of period	<u>48,916</u>	<u>35,096</u>
Total net position, end of period	<u><u>\$ 67,669</u></u>	<u><u>\$ 48,916</u></u>

The total additions increase of \$6.2 million is primarily the result of the favorable market conditions in fiscal year 2023.

The increase in distributions of \$1.3 million is primarily a result of increases in distributions to account holders.

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Management's Discussion and Analysis For the Year Ended June 30, 2023

CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide the users of these financial statements with a general overview of the Program's finances. Inquiries may be directed to the State Treasurer Office/Maryland 529 at Maryland529.com or by mailing your request to 217 E. Redwood Street, Suite 1350, Baltimore, MD 21202.

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**Statement of Fiduciary Net Position
As of June 30, 2023
(In 000's)**

	<u>Total</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 38,751
Investments, at fair value	28,895
Accounts receivable	31
Due from primary government	<u>90</u>
Total current assets	<u>67,767</u>
LIABILITIES	
Current liabilities	
Accounts payable	67
Compensated absences	<u>31</u>
Total current liabilities	<u>98</u>
NET POSITION, restricted for beneficiaries	<u><u>\$ 67,669</u></u>

The accompanying notes are an integral part of this statement.

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Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2023 (In 000's)

ADDITIONS

Contributions

Account holder contributions	\$ 22,951
Account fees	178
Management fee	83
Grants	300
Interest	115
Total Contributions	<u>23,627</u>

Investment income

Investment income	3,166
Total Additions	<u>26,793</u>

DEDUCTIONS

Distributions

Distributions to account holders	7,411
Salaries	291
Contractual services	32
Administrative expense	127
Account fees	179
Total Deductions	<u>8,040</u>

Change in net position	18,753
Total net position, beginning of period	48,916
Total net position, end of period	<u>\$ 67,669</u>

The accompanying notes are an integral part of this statement.

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Notes to the Financial Statements For the Year Ended June 30, 2023

1. BACKGROUND OF THE ORGANIZATION

Financial Reporting Entity

The Maryland ABLE Program (the Program) was designed to provide people with qualified disabilities a new way to save and invest for their future without jeopardizing access to Federal and state means tested benefits. The Program permits the Beneficiary of an ABLE Account to contribute and invest funds, enjoy tax-free growth on the earnings of the account, and make tax-free withdrawals to pay for Qualified Disability Expenses. Amounts in an ABLE Account up to \$100,000 are disregarded for purposes of determining the Beneficiary's eligibility to receive benefits under the Federal Supplemental Security Income program ("SSI"), and all amounts in an ABLE Account are to be disregarded in determining the Beneficiary's eligibility to receive benefits under any other Federal or state means-tested program.

During fiscal year 2023, individuals could contribute up to \$17,000 per beneficiary in annual contributions to an ABLE Account with an opportunity for the beneficiary to contribute up to approximately \$13,590 more in ABLE to Work contributions. Additional features of the Maryland ABLE Program include the opportunity to contribute up to a maximum Account value of \$500,000 over the life of the Account, and access to an annual income deduction of up to \$2,500 each year, per contributor, per ABLE Account on an individual's Maryland State taxes. As of June 1, 2023, Maryland ABLE is overseen by the Treasurer of the State of Maryland.

There are certain costs incurred by Maryland 529 that are not allocated to the Program. Thus, the results of the administrative activities of the Program do not represent the operations as a standalone entity. Federal law, Maryland State law, applicable Federal and state regulations, the Program Disclosure Booklet and the Participation Agreement govern the terms of Maryland ABLE accounts. Any amendments to applicable Federal or state law or regulations, the Program Disclosure Booklet, or the Participation Agreement, change the features of Maryland ABLE account when such amendments become effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The activities operated by the Program are accounted for as a fiduciary fund. Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The accompanying financial statements have been prepared on the accrual basis of accounting whereby revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of cash flows.

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Notes to the Financial Statements For the Year Ended June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The contributions received from Account Holders are held and invested, according to the Account Holder's investment selections, by the contracted Program Manager, Vestwell. The account values then change as gains or losses occur as a result of the investment experience of the Portfolio Option chosen as well as due to distribution requests and contributions by the Account Holder. The Fiduciary activities are presented in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 2022, the Government Accounting Standards Board (GASB) issued Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62, effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. The Program will be analyzing the effects of this pronouncement and plans to adopt it by the effective date.

In April 2022, the GASB issued Statement No. 99, Omnibus 2022, effective for fiscal years beginning after June 15, 2022. The Program has implemented this statement, and it had no material effect on the financial position of the Program.

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Notes to the Financial Statements For the Year Ended June 30, 2023

3. CASH AND INVESTMENTS

The Maryland ABLE Investment Policy, adopted by the Board, specifies the number of investment options and the general character and composition of each investment option. Based on these guidelines, detailed asset allocations have been developed and Underlying Mutual Funds have been selected for each Portfolio. The Program is not restricted in its investments by legal or contractual provisions.

Investments are stated at fair value, which GAAP defines as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Program investment options are comprised of only mutual funds, which are valued at the mutual fund's current share price based on the closing net asset value (NAV) per share on the date of valuation.

Because the investment options of the program are mutual funds that are actively traded at publicly available current share price, all investments are classified as Level 1 as of June 30, 2023. Changes in unrealized gain/loss resulting from changes in the fair values of investments are recognized daily in each account holder's net asset value per unit and, for the fiscal year, are reflected in aggregate in the Program's accompanying Statement of Changes in Fiduciary Net Position. An account holder's investments in mutual funds expose them to certain risks, including market risk in the form of equity price risk — that is, the potential future loss of value that would result from a decline in the fair values of the underlying mutual funds. Each underlying mutual fund and its underlying net assets are also subject to market risk that may arise from, among other things, changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates. Each underlying mutual fund that invests in bonds is subject to certain risks, including interest rate risk, which is the risk associated with a decline in bond prices that usually accompanies a rise in interest rates.

Custodial Risks

The cash option offers Federal Deposit Insurance Corporation (FDIC) insurance protection for amounts contributed to the cash option, up to FDIC permitted limits. The cash option allocates 100% of its assets to a demand deposit account established by the Program at the bank. Representatives of the FDIC have indicated that contributions to and earnings on an FDIC-insured bank account held by the Program will be insured by the FDIC on a pass-through basis to each beneficiary under existing or amended FDIC regulations, subject to applicable insurance limits and compliance with applicable recordkeeping requirements.

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Notes to the Financial Statements For the Year Ended June 30, 2023

3. CASH AND INVESTMENTS (continued)

Custodial Risks (continued)

Accordingly, contributions to and earnings on the cash option are insured by the FDIC on a pass-through basis to each beneficiary in the same manner as other deposits held by the beneficiary at the bank in the same ownership right and capacity. (For this purpose, accounts established by a custodian for a minor under Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) are aggregated for insurance purposes with all other accounts with the Bank held by the minor.) FDIC insurance generally protects up to \$250,000 of your deposits at the same bank in the same ownership right and capacity, so the portion of your ABLE account invested in the cash option, taken together with other deposits you hold in a single ownership basis at the bank, will be insured up to \$250,000. For more information on FDIC insurance, visit www.fdic.gov.

The Vanguard Total Bond Index Fund, the Vanguard Short-Term Bond Index Fund, and the Vanguard Short-Term TIPS Fund have interest-rate risk as measured by duration of 6.3 years, 2.6 years, and 2.5 years, respectively. The funds also have credit risks, but none of the Funds have formal credit ratings. For a complete description of these, and other, risks for each of the Mutual Funds, please review the prospectus that can be found by visiting the applicable Fund's website. For Vanguard Funds, go to investor.vanguard.com. For the Dimensional Fund, go to www.dimensional.com.

4. TAX-EXEMPT STATUS

The Program is exempt from Federal taxation in accordance with Section 529A of the Internal Revenue Code and is exempt from Maryland state and local taxation in accordance with the Enabling Legislation. Accordingly, the Program makes no provision for income taxes.

5. OTHER MATTERS

Unpredictable events such as environmental or natural disasters, war, terrorism, pandemics, outbreaks of infectious diseases, and similar public health threats may significantly affect the economy and the markets and Underlying Mutual Funds in which the Portfolios invest. Certain events may cause instability across global markets, including reduced liquidity and disruptions in trading markets, while some events may affect certain geographic regions, countries, sectors, and industries more significantly than others, and exacerbate other pre-existing political, social, and economic risks.

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Notes to the Financial Statements For the Year Ended June 30, 2023

6. OTHER MATTERS (continued)

Since 2020, a novel strain of coronavirus (COVID-19) has resulted in disruptions to global business activity and caused significant volatility and declines in global financial markets. In February 2022, Russian forces entered Ukraine and commenced an armed conflict leading to economic sanctions being imposed on Russia and certain of its citizens, creating impacts on Russian-related stocks and debt and greater volatility in global markets.

In March 2023, the collapse of some US regional and global banks as well as overall concerns around the soundness and stability of the global banking sector has sparked concerns of a broader financial crisis impacting the overall global banking sector. In certain cases, government agencies have assumed control or otherwise intervened in the operations of certain banks due to liquidity and solvency concerns. The extent of impact of these events on the US and global markets is highly uncertain.

These are recent examples of global events which may have a negative impact on a portfolio's performance if the value of an underlying mutual fund were harmed by these and such other events. The Program Manager is actively monitoring the risks and financial impacts arising from these events.