



THE MARYLAND FOOD BANK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

	<u>Page Numbers</u>
Independent Auditor's Report.....	1-2
Statements of Financial Position	3-4
Statements of Activities	5-6
Statements of Functional Expenses.....	7-10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-23

Independent Auditor's Report

To the Board of Directors
The Maryland Food Bank, Inc.

We have audited the accompanying financial statements of The Maryland Food Bank, Inc., a nonprofit corporation, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Maryland Food Bank, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
November 21, 2016

THE MARYLAND FOOD BANK, INC.
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,011,897	\$ 3,907,311
Investments	2,387,147	3,128,825
Accounts receivable	488,869	596,214
Pledges receivable, current	596,045	1,210,675
Inventories	1,867,885	1,569,035
Prepaid expenses	69,874	159,674
Total Current Assets	<u>9,421,717</u>	<u>10,571,734</u>
Property		
Land, building, and improvements	18,788,246	16,177,921
Automotive equipment	2,646,248	2,327,561
Furniture and fixtures	1,381,376	1,377,873
Warehouse equipment	1,378,347	1,215,651
Construction in progress	37,836	212,835
Total Cost	<u>24,232,053</u>	<u>21,311,841</u>
Less: Accumulated depreciation	6,537,380	5,867,799
Net Property	<u>17,694,673</u>	<u>15,444,042</u>
Other Assets		
Other assets, restricted	20,840	20,000
Assets held in trust	245,448	196,950
Deferred financing costs, net of amortization	83,500	76,254
Pledge receivable, noncurrent	305,208	630,960
Total Other Assets	<u>654,996</u>	<u>924,164</u>
Total Assets	<u><u>\$ 27,771,386</u></u>	<u><u>\$ 26,939,940</u></u>

	<u>2016</u>	<u>2015</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 839,829	\$ 1,589,301
Payable, other	256,000	-0-
Deferred revenue	83,586	20,000
Current maturities of long-term debt	2,708,748	144,990
Total Current Liabilities	<u>3,888,163</u>	<u>1,754,291</u>
Non-Current Liabilities		
Long-term debt, net of current maturities	7,565,233	7,149,111
Deferred compensation payable	266,288	216,950
Total Non-Current Liabilities	<u>7,831,521</u>	<u>7,366,061</u>
Total Liabilities	<u>11,719,684</u>	<u>9,120,352</u>
Commitments (Notes 7, 11, 12 and 14)		
Net Assets		
Unrestricted		
General operations	11,549,005	11,842,791
Board designated	2,387,147	3,128,825
Total Unrestricted	<u>13,936,152</u>	<u>14,971,616</u>
Temporarily restricted	2,115,550	2,847,972
Total Net Assets	<u>16,051,702</u>	<u>17,819,588</u>
Total Liabilities and Net Assets	<u>\$ 27,771,386</u>	<u>\$ 26,939,940</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Activities
Years Ended June 30, 2016 and 2015

2016

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Support			
Contributions - in kind	\$ 56,677,205	\$ -0-	\$ 56,677,205
Contributions - other	8,327,574	5,042,751	13,370,325
Total	<u>65,004,779</u>	<u>5,042,751</u>	<u>70,047,530</u>
Revenue			
Sales to agencies, net of returns	2,063,396	-0-	2,063,396
Contracted meals	1,226,483	-0-	1,226,483
Program fees	1,114,852	-0-	1,114,852
Shared maintenance	460,837	-0-	460,837
Delivery income	222,382	-0-	222,382
Investment income, net	4,168	-0-	4,168
Loss on disposal of property	(7,573)	-0-	(7,573)
Other revenue	20,659	-0-	20,659
Total	<u>5,105,204</u>	<u>-0-</u>	<u>5,105,204</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	<u>5,775,173</u>	<u>(5,775,173)</u>	<u>-0-</u>
Total Support and Revenue	<u>75,885,156</u>	<u>(732,422)</u>	<u>75,152,734</u>
Expenses			
Program services			
Program food costs	61,940,726	-0-	61,940,726
Direct service grants	938,992	-0-	938,992
Personnel	5,092,377	-0-	5,092,377
Warehouse and building	1,598,319	-0-	1,598,319
Transportation	976,538	-0-	976,538
Administrative	323,728	-0-	323,728
Total Program Services	<u>70,870,680</u>	<u>-0-</u>	<u>70,870,680</u>
Supporting services			
Management and general	2,518,116	-0-	2,518,116
Fundraising	3,531,824	-0-	3,531,824
Total Supporting Services	<u>6,049,940</u>	<u>-0-</u>	<u>6,049,940</u>
Total Expenses	<u>76,920,620</u>	<u>-0-</u>	<u>76,920,620</u>
Change in Net Assets	(1,035,464)	(732,422)	(1,767,886)
Net Assets at Beginning of Year	14,971,616	2,847,972	17,819,588
Net Assets at End of Year	<u>\$ 13,936,152</u>	<u>\$ 2,115,550</u>	<u>\$ 16,051,702</u>

2015			
Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
\$ 62,435,173	\$ -0-	\$ 62,435,173	\$ (5,757,968)
9,136,658	6,708,864	15,845,522	(2,475,197)
<u>71,571,831</u>	<u>6,708,864</u>	<u>78,280,695</u>	<u>(8,233,165)</u>
1,867,754	-0-	1,867,754	195,642
1,260,036	-0-	1,260,036	(33,553)
798,611	-0-	798,611	316,241
622,918	-0-	622,918	(162,081)
58,745	-0-	58,745	163,637
79,810	-0-	79,810	(75,642)
-0-	-0-	-0-	(7,573)
84,122	-0-	84,122	(63,463)
<u>4,771,996</u>	<u>-0-</u>	<u>4,771,996</u>	<u>333,208</u>
6,045,920	(6,045,920)	-0-	-0-
<u>82,389,747</u>	<u>662,944</u>	<u>83,052,691</u>	<u>(7,899,957)</u>
69,005,830	-0-	69,005,830	(7,065,104)
1,017,095	-0-	1,017,095	(78,103)
5,540,238	-0-	5,540,238	(447,861)
1,580,561	-0-	1,580,561	17,758
1,050,536	-0-	1,050,536	(73,998)
433,765	-0-	433,765	(110,037)
<u>78,628,025</u>	<u>-0-</u>	<u>78,628,025</u>	<u>(7,757,345)</u>
2,590,406	-0-	2,590,406	(72,290)
3,847,174	-0-	3,847,174	(315,350)
<u>6,437,580</u>	<u>-0-</u>	<u>6,437,580</u>	<u>(387,640)</u>
85,065,605	-0-	85,065,605	(8,144,985)
(2,675,858)	662,944	(2,012,914)	245,028
<u>17,647,474</u>	<u>2,185,028</u>	<u>19,832,502</u>	<u>(2,012,914)</u>
<u>\$ 14,971,616</u>	<u>\$ 2,847,972</u>	<u>\$ 17,819,588</u>	<u>\$ (1,767,886)</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

	2016			
	Program Services	Manage- ment and General	Fund- raising	Total
Program Food Costs				
Value of donated goods distributed	\$ 56,363,841	\$ -0-	\$ -0-	\$ 56,363,841
Cost of purchased goods sold	4,693,398	-0-	-0-	4,693,398
Processing and other costs	883,487	-0-	-0-	883,487
Total Program Food Costs	<u>61,940,726</u>	<u>-0-</u>	<u>-0-</u>	<u>61,940,726</u>
Direct Service Grants	<u>938,992</u>	<u>-0-</u>	<u>-0-</u>	<u>938,992</u>
Personnel Expenses				
Salaries and wages	3,558,730	1,403,948	1,531,890	6,494,568
Employee benefits	913,610	190,512	154,308	1,258,430
Payroll taxes	320,002	107,138	126,895	554,035
Pension	184,327	76,601	76,495	337,423
Outside labor	115,708	1,603	1,625	118,936
Total Personnel Expenses	<u>5,092,377</u>	<u>1,779,802</u>	<u>1,891,213</u>	<u>8,763,392</u>
Warehouse and Building Expenses				
Depreciation	763,936	-0-	44,630	808,566
Repairs and maintenance supplies	388,725	-0-	-0-	388,725
Utilities	275,464	8,934	6,824	291,222
Trash service	120,132	165	-0-	120,297
Insurance	50,062	-0-	-0-	50,062
Total Warehouse and Building Expenses	<u>1,598,319</u>	<u>9,099</u>	<u>51,454</u>	<u>1,658,872</u>
Transportation Expenses				
Depreciation	313,686	-0-	-0-	313,686
Fuel	173,826	-0-	-0-	173,826
Rent	149,172	-0-	-0-	149,172
Repairs and maintenance	137,910	471	-0-	138,381
Insurance	101,794	-0-	-0-	101,794
Licenses, fees and tolls	63,630	2	-0-	63,632
Freight	36,520	16	-0-	36,536
Total Transportation Expenses	<u>976,538</u>	<u>489</u>	<u>-0-</u>	<u>977,027</u>

2015

Program Services	Manage- ment and General	Fund- raising	Total	Increase (Decrease)
\$ 63,142,033	\$ -0-	\$ -0-	\$ 63,142,033	\$ (6,778,192)
4,926,007	-0-	-0-	4,926,007	(232,609)
937,790	-0-	-0-	937,790	(54,303)
<u>69,005,830</u>	<u>-0-</u>	<u>-0-</u>	<u>69,005,830</u>	<u>(7,065,104)</u>
1,017,095	-0-	-0-	1,017,095	(78,103)
3,889,892	1,346,170	1,578,440	6,814,502	(319,934)
960,166	237,425	148,463	1,346,054	(87,624)
322,900	106,470	123,747	553,117	918
156,883	73,117	57,772	287,772	49,651
210,397	12,953	17,984	241,334	(122,398)
<u>5,540,238</u>	<u>1,776,135</u>	<u>1,926,406</u>	<u>9,242,779</u>	<u>(479,387)</u>
802,568	-0-	38,101	840,669	(32,103)
312,355	-0-	21	312,376	76,349
294,714	9,349	7,141	311,204	(19,982)
119,164	2,348	-0-	121,512	(1,215)
51,760	-0-	-0-	51,760	(1,698)
<u>1,580,561</u>	<u>11,697</u>	<u>45,263</u>	<u>1,637,521</u>	<u>21,351</u>
242,075	-0-	-0-	242,075	71,611
276,568	-0-	-0-	276,568	(102,742)
100,355	-0-	-0-	100,355	48,817
204,874	-0-	-0-	204,874	(66,493)
87,903	-0-	-0-	87,903	13,891
60,658	-0-	-0-	60,658	2,974
78,103	-0-	-0-	78,103	(41,567)
<u>1,050,536</u>	<u>-0-</u>	<u>-0-</u>	<u>1,050,536</u>	<u>(73,509)</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Functional Expenses (Continued)
Years Ended June 30, 2016 and 2015

	2016			
	Program Services	Manage- ment and General	Fund- raising	Total
Administrative Expenses				
Printing	\$ 1,079	\$ 729	\$ 651,412	\$ 653,220
Professional fees	20,011	227,162	342,350	589,523
Office and administrative expenses	75,572	70,436	161,494	307,502
Postage	3,636	1,711	269,100	274,447
Interest	27,196	164,546	-0-	191,742
Public relations	38,496	445	139,004	177,945
Telephone	52,805	39,969	12,733	105,507
Computer and service bureau	2,608	97,660	526	100,794
Insurance	502	25,984	-0-	26,486
Travel and lodging	37,972	18,956	8,255	65,183
Offsite rent and storage	60,148	-0-	-0-	60,148
Depreciation and amortization	-0-	44,904	-0-	44,904
Dues and subscriptions	3,311	33,301	3,513	40,125
Seminars and conferences	300	975	770	2,045
Bad debt expense	92	1,948	-0-	2,040
Total Administrative Expenses	<u>323,728</u>	<u>728,726</u>	<u>1,589,157</u>	<u>2,641,611</u>
Total Expenses	<u>\$ 70,870,680</u>	<u>\$ 2,518,116</u>	<u>\$ 3,531,824</u>	<u>\$ 76,920,620</u>

2015

Program Services	Management and General	Fund-raising	Total	Increase (Decrease)
\$ 7,749	\$ 636	\$ 786,382	\$ 794,767	\$ (141,547)
17,271	304,366	461,227	782,864	(193,341)
94,323	100,323	211,352	405,998	(98,496)
4,476	1,199	260,276	265,951	8,496
17,316	42,695	-0-	60,011	131,731
80,519	1,573	122,219	204,311	(26,366)
74,333	27,214	14,660	116,207	(10,700)
8,597	110,515	2,287	121,399	(20,605)
9,031	-0-	-0-	9,031	17,455
58,961	36,254	10,846	106,061	(40,878)
52,067	-0-	-0-	52,067	8,081
-0-	130,719	-0-	130,719	(85,815)
4,200	35,890	3,913	44,003	(3,878)
4,887	5,478	2,343	12,708	(10,663)
35	5,712	-0-	5,747	(3,707)
433,765	802,574	1,875,505	3,111,844	(470,233)
\$ 78,628,025	\$ 2,590,406	\$ 3,847,174	\$ 85,065,605	\$ (8,144,985)

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

THE MARYLAND FOOD BANK, INC.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (1,767,886)	\$ (2,012,914)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized loss on investments	258,407	118,337
Realized gain on sale of investments	(179,055)	(89,148)
Noncash contributions - investments	(95,370)	(106,333)
Provision for bad debts	2,040	5,747
Depreciation and amortization	1,167,156	1,213,461
Loss on sale of property	7,537	-0-
Changes in operating assets and liabilities:		
Accounts receivable	105,305	(76,354)
Pledges receivable	940,382	(1,017,516)
Inventories	(298,850)	662,609
Prepaid expenses	89,800	(114,754)
Accounts payable and accrued expenses	(749,472)	415,114
Payable, other	256,000	-0-
Deferred revenue	63,586	20,000
Net Cash Used in Operating Activities	<u>(200,420)</u>	<u>(981,751)</u>
Cash Flows from Investing Activities		
Purchases of investments	(101,306)	(577,994)
Proceeds from sale of investments	859,002	570,284
Purchase of property	(258,677)	(316,046)
Proceeds from sale of property	12,425	-0-
Net Cash Provided by (Used in) Investing Activities	<u>511,444</u>	<u>(323,756)</u>
Cash Flows from Financing Activities		
Payments on long-term debt	(186,690)	(301,190)
Proceeds from long-term debt	-0-	3,542,292
Payments on short-term bank borrowings	-0-	(1,168,602)
Proceeds from short-term bank borrowings	-0-	1,841,971
Acquisition of deferred financing costs	(19,748)	(8,025)
Net Cash Provided by (Used in) Financing Activities	<u>(206,438)</u>	<u>3,906,446</u>
Net Increase in Cash and Cash Equivalents	104,586	2,600,939
Cash and Cash Equivalents at Beginning of Year	<u>3,907,311</u>	<u>1,306,372</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,011,897</u></u>	<u><u>\$ 3,907,311</u></u>

	<u>2016</u>	<u>2015</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 191,742	\$ 60,011
Noncash Investing and Financing Activities		
Acquisition of property	\$ 3,412,871	\$ 923,763
Less: property acquired through capital leases	(666,570)	(607,717)
Less: property acquired through debt financing	(2,487,624)	-0-
Net cash paid for property	<u>\$ 258,677</u>	<u>\$ 316,046</u>
Debt activity		
Proceeds from long-term debt	\$ 2,500,000	\$ -0-
Proceeds from refinanced mortgage	-0-	6,560,000
Less: property acquired through debt financing	(2,487,624)	
Less: repayment of bonds payable	-0-	(2,048,045)
Less: repayment of short-term bank borrowings	-0-	(901,434)
Less: deferred financing costs	(12,376)	(68,229)
Net cash received from long-term debt activity	<u>\$ -0-</u>	<u>\$ 3,542,292</u>

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 1: Summary of Significant Accounting Policies

The Maryland Food Bank, Inc. (the Food Bank) is a nonprofit organization, incorporated in the State of Maryland on June 14, 1978, and is an affiliate of Feeding America, which is the nation's leading domestic hunger-relief charity. The Food Bank was founded to coordinate the procurement and distribution of food donations from manufacturers, wholesalers, retailers and government agencies to organizations providing free food to the state's hungry. The Food Bank receives shared maintenance payments from those organizations based on the amount of food they receive. The Food Bank also receives value added fees on food that they process. Through its purchased food program, the Food Bank purchases supplemental food items and distributes them at cost plus a modest mark-up to qualifying organizations. Additionally, the Food Bank stores and distributes USDA commodities under an agreement with the Maryland Department of Human Resources (DHR) for The Emergency Food Assistance Program (TEFAP). The Food Bank receives, stores and distributes this food through a network of qualified feeding organizations throughout the State.

The accounting and reporting policies of the Food Bank conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation: The Food Bank is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Upon the expiration of a restriction, temporarily restricted net assets are reclassified to unrestricted net assets in the statements of activities.

Permanently restricted net assets results from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the organization's actions. During the years ended June 30, 2016 and 2015, the Food Bank did not have any permanently restricted net assets.

Cash and Cash Equivalents: The Food Bank classifies all investments which are readily convertible to cash and which have a maturity of three months or less when purchased as cash equivalents.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable: Accounts receivables, which are from program services, are carried at cost less an allowance for doubtful accounts. The Food Bank provides for doubtful accounts based on anticipated collection losses. The estimated losses are determined from historical collection experience and a review of outstanding receivables. Delinquent receivables are written off by management when, in their determination, all reasonable collection efforts have been exhausted. Recoveries of receivables previously written off are recorded when received. Management has not recorded an allowance for doubtful accounts as of June 30, 2016 and 2015, since in the opinion of management all outstanding accounts receivable are collectible.

Pledges Receivable: Unconditional promises to give are recorded as pledges receivable and recognized as revenue in the period received. Unconditional promises to give in a future period are discounted to their net present value at the time the revenue is recorded. Provision is made for uncollectible pledges based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding pledges receivable. Pledges receivable are written off by management when, in their determination, all appropriate collection efforts have been taken. The Food Bank has not recorded an allowance for uncollectible pledges as of June 30, 2016 and 2015, since in the opinion of management all outstanding pledges receivable are collectible.

Investments: Investments with readily determinable fair market values are reported at fair value in the statements of financial position. Fair value is defined 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. Realized and unrealized gains and losses on investments for the year are reported in the statements of activities.

Inventories: Inventories of food that have been purchased for the food distribution program but which have not been distributed, are valued at the lower of cost or market. Cost is determined by the first-in, first-out method. Inventories of food contributed by donors are valued at the approximate wholesale value which is determined annually by Feeding America.

For purposes of valuing food donated to and distributed by the Food Bank during the year, the Food Bank uses the average wholesale value determined annually by Feeding America in effect at the beginning of the year. For the years ended June 30, 2016 and 2015, inventory received and distributed was valued at \$1.70 and \$1.72 per pound, respectively. As of June 30, 2016 and 2015, the inventory on hand was adjusted to \$1.67 and \$1.70 per pound, respectively, based on the most current average wholesale value determined by Feeding America.

For purposes of valuing USDA commodities received and distributed under the agreement with DHR, the Food Bank uses the value as determined by USDA received with the shipment.

Property: Property is stated at cost or, if donated, at the approximate fair value at the date of donation, less accumulated depreciation. It is the Food Bank's policy to capitalize all property acquisitions in excess of \$2,500 having useful lives greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 2 to 40 years. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs: In June 2015, the Food Bank refinanced its mortgage, incurring deferred financing costs. As a result, the remaining balance of the old deferred financing costs were written off. In July 2015, the Food Bank incurred additional deferred financing costs in association with a new mortgage on a property acquisition. The deferred financing costs are being amortized on a straight-line basis over the terms of the applicable mortgage. As of June 30, 2016 and 2015, deferred financing costs were \$83,500 and \$76,254, net of accumulated amortization of \$24,878 and \$-0-, respectively.

Donated Materials: Donated materials are reflected in the accompanying financial statements at their estimated fair value at date of receipt.

Contributed Services: Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Food Bank.

Income Taxes: The Food Bank has been recognized by the Internal Revenue Service (IRS) as an organization exempt from income taxes under Internal Revenue Code (IRC) §501(c)(3). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Food Bank had no unrelated business income for the years ended June 30, 2016 and 2015. Accordingly, no provision for income taxes is reflected in these financial statements.

The Food Bank's federal exempt organization tax returns are subject to examination by the IRS, generally for a period of three years after the returns are filed.

Note 2: Investments and Fair Value Measurement

Generally accepted accounting principles establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 2: Investments and Fair Value Measurement (Continued)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation techniques used by the Food Bank include the following:

Money Market Funds: Valued at original cost, which equals fair value.

Mutual Funds: Valued at the last sales price reported on the active market in which the individual fund is traded.

In determining the appropriate levels, the Food Bank performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

The tables below present the balances of investments measured at fair value on a recurring basis by level within the hierarchy, as of June 30, 2016 and 2015:

	2016			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 15	\$ 15	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,181,032	1,181,032	-0-	-0-
Bond funds	760,842	760,842	-0-	-0-
International funds	445,258	445,258	-0-	-0-
Total Investments	<u>\$ 2,387,147</u>	<u>\$ 2,387,147</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
	2015			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 8	\$ 8	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,534,365	1,534,365	-0-	-0-
Bond funds	965,343	965,343	-0-	-0-
International funds	629,109	629,109	-0-	-0-
Total Investments	<u>\$ 3,128,825</u>	<u>\$ 3,128,825</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 2: Investments and Fair Value Measurement (Continued)

Investment income, net, as reported on the statements of activities for the years ended June 30, 2016 and 2015 is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 101,306	\$ 132,107
Net unrealized losses	(258,407)	(118,337)
Net realized gains	179,055	89,148
Investment fees	<u>(17,786)</u>	<u>(23,108)</u>
Total Investment Income, Net	<u>\$ 4,168</u>	<u>\$ 79,810</u>

Note 3: Pledges Receivable

Pledges receivable as of June 30, 2016 and 2015 consisted of the following unconditional promises to give:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 596,045	\$ 1,210,675
Receivable in one to five years	283,066	608,897
Receivable greater than five years	<u>30,000</u>	<u>40,000</u>
Total pledge receivable	909,111	1,859,572
Present value discount	<u>(7,858)</u>	<u>(17,937)</u>
Net pledges receivable	<u>\$ 901,253</u>	<u>\$ 1,841,635</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 4: Inventories

Inventories of donated and purchased food as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Baltimore:		
Donated	\$ 1,087,525	\$ 856,938
TEFAP	283,071	316,337
Out on consignment (at cost)	7,129	10,428
Purchased (at cost)	186,164	182,282
	<u>1,563,889</u>	<u>1,365,985</u>
Salisbury:		
Donated	235,956	86,257
TEFAP	31,417	11,344
Purchased (at cost)	36,623	19,483
	<u>303,996</u>	<u>117,084</u>
Hagerstown:		
Donated	-0-	57,571
TEFAP	-0-	12,103
Purchased (at cost)	-0-	16,292
	<u>-0-</u>	<u>85,966</u>
Total Inventories	<u>\$ 1,867,885</u>	<u>\$ 1,569,035</u>

Note 5: Line of Credit

In June 2015, the Food Bank entered into a \$1,750,000 revolving line of credit (LOC) agreement with Sandy Spring Bank (Sandy Spring), for the purpose of purchasing bulk food products and for other operating needs. Borrowings under this line of credit are subject to interest at the one month LIBOR rate plus 1.6%, which is payable monthly. As of June 30, 2016, the interest rate was 2.05%. The LOC matures on February 28, 2017 and requires the same financial covenants as the mortgage payable (see Note 6). As of June 30, 2016 and 2015, there were no outstanding borrowings on the LOC.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 6: Long-Term Debt

Mortgages Payable: On June 29, 2015, the Food Bank entered into a promissory note with Sandy Spring in the amount of \$6,560,000. The note is secured by a deed of trust on the Food Bank's facility and personal property located in Baltimore County, Maryland and requires compliance with certain financial covenants as described in the note agreement. The interest rate on the note is based on the one month LIBOR rate plus 1.5%. As of June 30, 2016 and 2015, the interest rate was 1.95% and 1.69%, respectively. The note requires interest only payments through June 2018. Commencing in July 2018, monthly principal payments of \$21,867 plus interest are required until the note matures on June 29, 2022. The note can be prepaid at any time without premium or penalty.

On July 1, 2015, the Food Bank entered into a promissory note with Sandy Spring in the amount of \$2,500,000 to purchase property located in Cecil County, Maryland. The note is secured by a first priority deed of trust on this property as well as by an investment account that was required to be established and held as collateral for the note. As of June 30, 2016, this investment collateral account had a value of \$756,721. The note requires compliance with certain financial covenants as described in the note agreement. The interest rate on the note is based on the one month LIBOR rate plus 1.5%. As of June 30, 2016, the interest rate was 1.95%. The note requires interest only payments until the note matures on January 1, 2017, and if the principal balance due at any time prior to the maturity date is reduced to \$1,500,000 or less, the lender may further extend the due date for fifty-four months after the principal balance due become \$1,500,000 or less.

Capital Lease Obligations: The Food Bank is also obligated under capital leases described in Note 7.

The aggregate annual maturities of long-term debt as of June 30, 2016 are as follows:

Year Ending June 30:	Mortgage Payable	Capital Leases	Total
2017	\$ 2,500,000	\$ 208,748	\$ 2,708,748
2018	-0-	206,914	206,914
2019	262,400	201,558	463,958
2020	262,400	198,766	461,166
2021	262,400	192,523	454,923
Thereafter	5,772,800	205,472	5,978,272
Total	9,060,000	1,213,981	10,273,981
Less: Current maturities	2,500,000	208,748	2,708,748
Non-current maturities	<u>\$ 6,560,000</u>	<u>\$ 1,005,233</u>	<u>\$ 7,565,233</u>

Note 7: Commitments

Land Lease: The Food Bank leases land in Salisbury, Maryland from Wicomico County, Maryland for \$1 per year. The Food Bank exercised its option to renew this lease, effective August 1, 2015, for an additional 25 year term that expires on July 31, 2040.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 7: Commitments (Continued)

Capital Lease Obligations: The Food Bank leases twelve trucks having a combined cost of \$1,486,634 under noncancelable capital lease agreements.

Amortization of the cost of the leased equipment is included in depreciation. Accumulated amortization of all leased equipment as of June 30, 2016 and 2015 was \$272,440 and \$103,097, respectively.

As of June 30, 2016, future minimum lease payments under the capital lease obligations, summarized by year, are as follows:

Year Ending June 30:	
2017	\$ 243,456
2018	235,411
2019	224,148
2020	215,403
2021	203,160
Thereafter	<u>210,720</u>
Total minimum lease payments remaining	1,332,298
Less: Amount representing interest (.96% to 3.97%)	<u>118,317</u>
Present value of future minimum lease payments	<u><u>\$ 1,213,981</u></u>

Note 8: Temporarily Restricted Net Assets

The Food Bank has several temporarily restricted funds, which may be fully expended but only for the purpose established by the respective donors. Temporarily restricted net assets were available for the following purposes as of June 30, 2016 and 2015:

	Year Ended June 30, 2016				Balance at June 30, 2016
	Balance at June 30, 2015	Donor Re-Designation	Contributions	Released From Restrictions	
Capital campaign	\$ 2,052,249	\$ (300,000)	\$ 165,062	\$ (498,952)	\$ 1,418,359
Youth programs	461,965	(18,118)	940,559	(1,107,803)	276,603
Food distribution	151,277	318,118	3,831,972	(3,905,779)	395,588
Capital projects	75,981	75,000	81,658	(207,639)	25,000
SNAP outreach	75,000	(75,000)	-0-	-0-	-0-
Network capacity building	31,500	-0-	23,500	(55,000)	-0-
	<u>\$ 2,847,972</u>	<u>\$ -0-</u>	<u>\$ 5,042,751</u>	<u>\$ (5,775,173)</u>	<u>\$ 2,115,550</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 8: Temporarily Restricted Net Assets (Continued)

	Year Ended June 30, 2015			Balance at June 30, 2015
	Balance at June 30, 2014	Contributions	Released From Restrictions	
Capital campaign	\$ 1,507,695	\$ 1,152,799	\$ (608,245)	\$ 2,052,249
Youth programs	452,031	1,015,262	(1,005,328)	461,965
Food distribution	147,607	3,876,778	(3,873,108)	151,277
Capital projects	47,694	133,099	(104,812)	75,981
SNAP outreach	30,001	125,000	(80,001)	75,000
FoodWorks operations	-0-	220,000	(220,000)	-0-
Network capacity building	-0-	60,926	(29,426)	31,500
Food purchase share program	-0-	125,000	(125,000)	-0-
	<u>\$ 2,185,028</u>	<u>\$ 6,708,864</u>	<u>\$ (6,045,920)</u>	<u>\$ 2,847,972</u>

Note 9: Board Designated Net Assets

The Board of Directors (the Board) of the Food Bank has established a board designated fund. The purpose of the board designated fund is to support debt service for two years, establish an emergency fund for major equipment failure and create a three month working capital reserve in compliance with Feeding America standards. The Board designated specific investment accounts to hold the board designated funds. Investment income earned on these accounts is to be added to the board designated fund balance. Withdrawals from the board designated fund must be approved by the Board. The Board authorized a withdrawal of \$740,000 during the year ended June 30, 2016. The balance of the board designated fund was \$2,387,147 and \$3,128,825 as of June 30, 2016 and 2015, respectively.

Note 10: In-Kind Transactions

During the years ended June 30, 2016 and 2015, the Food Bank received donated food valued at \$56,661,260 and \$62,397,402, respectively.

Various businesses have donated goods and services to support the Food Bank's programs and fundraising events. The Food Bank also receives contributions of fixed assets on a periodic basis. The fair values of these items have been included in total support and revenue and expenses in the statements of activities.

A substantial number of volunteers have donated significant amounts of time to the Food Bank's programs, but since the value of such services does not meet the criteria for recognition of contributed services, no amounts have been recorded in the financial statements.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 11: Retirement Plan

The Food Bank sponsors a salary reduction retirement plan that qualifies under Section 403(b) of the IRC and covers all employees. There are no required employee deferrals and contributions by the Food Bank are made at the discretion of the Board of Directors. The Board has chosen to have the Food Bank make a safe harbor employer contribution to the plan of 3% of each eligible employee's compensation regardless of whether an employee makes an elective deferral to the plan. In addition, the Food Bank may make matching contributions at a specified percentage of the eligible employees' compensation, but no more than 5%. Total employer contributions for the years ended June 30, 2016 and 2015 were \$337,423 and \$287,772, respectively.

Note 12: Deferred Compensation and Assets Held In Trust

The Food Bank has an IRC Section 457(b) deferred compensation plan (the 457 Plan) that covers certain current and former management personnel. Under the terms of the 457 Plan, the Food Bank may defer compensation for eligible participants on an annual basis by funding the 457 Plan. The maximum annual funding cannot exceed the lesser of the maximum amount allowed by the IRC or 100% of the eligible participant's includable compensation. There is a provision for limited catch-up funding as described in the plan documents.

Participants of the 457 Plan are entitled to receive their deferred compensation amount, plus investment income on such amounts, upon severance from employment, as defined in the plan documents. The deferred compensation balance under the 457 Plan at June 30, 2016 and 2015 was \$245,448 and \$196,950, respectively, which has been invested in a separate income-bearing account, referred to as assets held in trust on the statements of financial position.

The Food Bank has also established a deferred incentive plan (the Incentive Plan), which is intended to be an ineligible deferred compensation plan as described in IRC Section 457(f). The Incentive Plan has been established to provide incentive and retention awards for achievement in meeting individual and employer goals and objectives for a select group of management or highly compensated employees. The deferred compensation balance under the Incentive Plan at June 30, 2016 and 2015 was \$20,840 and \$20,000, respectively, which has been invested in a separate income-bearing account, referred to as other assets, restricted on the statements of financial position.

Note 13: Cash and Cash Equivalents

The Food Bank maintains its cash balances at various financial institutions. Periodically during the year, the Food Bank's cash balances may exceed federally insured limits. The Food Bank has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

Note 14: Other Matters

In 2004, the Food Bank requested and received a significant grant for capital improvements to its Baltimore County, Maryland location from a local foundation. As part of this grant agreement, the Food Bank agreed to certain conditions as specified in the grant agreement, including the following: the Food Bank shall not sell, transfer, mortgage, or further encumber the land and/or improvements of this facility without the prior written consent from the Foundation. The Food Bank requested and received a waiver from the foundation in order to enter into the \$6,560,000 mortgage described in Note 6.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2016 and 2015

Note 15: Subsequent Events

In preparing these financial statements, the Food Bank has evaluated events and transactions for the potential recognition or disclosure through November 21, 2016, the date the financial statements were available to be issued. During the period July 1, 2016 through November 21, 2016, except for the events described below, the Food Bank did not have any other material recognizable subsequent events.

In August 2016, the Food Bank entered into a license agreement with a third party to utilize the building located in Cecil County, Maryland with the intent by both parties to enter into a sale agreement to sell this building to this third party. Prior to any sale, this agreement permits this third party to start to utilize this building for its own operations. This agreement required an upfront deposit of \$100,000, which is fully refundable upon the sale of the building. On October 10, 2016, the Food Bank entered into a sale agreement with this third party to sell this building for \$2,400,000. As of the report date, this sale transaction has not yet occurred.

