



THE MARYLAND FOOD BANK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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	13-22

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, 2017 and 2016, 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, 2017 and 2016, 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
December 15, 2017

THE MARYLAND FOOD BANK, INC.
Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,671,144	\$ 4,011,897
Investments	2,651,158	2,387,147
Accounts receivable	491,904	488,869
Pledges receivable, current	252,484	596,045
Inventories	1,432,548	1,867,885
Prepaid expenses	83,409	69,874
Total Current Assets	<u>9,582,647</u>	<u>9,421,717</u>
Property		
Land, building, and improvements	16,429,833	18,788,246
Automotive equipment	2,503,755	2,646,248
Furniture and fixtures	1,449,151	1,381,376
Warehouse equipment	1,534,230	1,378,347
Construction in progress	43,407	37,836
Total Cost	<u>21,960,376</u>	<u>24,232,053</u>
Less: Accumulated depreciation	7,425,684	6,537,380
Net Property	<u>14,534,692</u>	<u>17,694,673</u>
Other Assets		
Other assets, restricted	22,923	20,840
Assets held in trust	229,226	245,448
Pledge receivable, noncurrent	232,382	305,208
Total Other Assets	<u>484,531</u>	<u>571,496</u>
 Total Assets	 <u><u>\$ 24,601,870</u></u>	 <u><u>\$ 27,687,886</u></u>

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,130,764	\$ 839,829
Payable, other	-0-	256,000
Deferred revenue	-0-	83,586
Current maturities of capital lease obligations	208,748	208,748
Current maturities of mortgages payable	-0-	2,500,000
Total Current Liabilities	<u>1,339,512</u>	<u>3,888,163</u>
Non-Current Liabilities		
Mortgages payable, net of current maturities	6,515,235	6,476,500
Capital lease obligations, net of current maturities	803,905	1,005,233
Deferred compensation payable	252,149	266,288
Total Non-Current Liabilities	<u>7,571,289</u>	<u>7,748,021</u>
Total Liabilities	<u>8,910,801</u>	<u>11,636,184</u>
Commitments (Notes 7, 11, 12 and 14)		
Net Assets		
Unrestricted		
General operations	11,407,641	11,549,005
Board designated	2,651,158	2,387,147
Total Unrestricted	<u>14,058,799</u>	<u>13,936,152</u>
Temporarily restricted	1,632,270	2,115,550
Total Net Assets	<u>15,691,069</u>	<u>16,051,702</u>
Total Liabilities and Net Assets	<u>\$ 24,601,870</u>	<u>\$ 27,687,886</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Support			
Contributions - in kind	\$ 53,994,328	\$ -0-	\$ 53,994,328
Contributions - other	7,864,419	5,611,090	13,475,509
Total	<u>61,858,747</u>	<u>5,611,090</u>	<u>67,469,837</u>
Revenue			
Sales to agencies, net of returns	1,992,832	-0-	1,992,832
Contracted meals	1,196,149	-0-	1,196,149
Program fees	1,384,938	-0-	1,384,938
Shared maintenance	406,759	-0-	406,759
Delivery income	70,376	-0-	70,376
Investment income, net	269,576	-0-	269,576
Loss on disposal of property	(173,287)	-0-	(173,287)
Other revenue	26,680	-0-	26,680
Total	<u>5,174,023</u>	<u>-0-</u>	<u>5,174,023</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	6,094,370	(6,094,370)	-0-
Total Support and Revenue	<u>73,127,140</u>	<u>(483,280)</u>	<u>72,643,860</u>
Expenses			
Program services			
Program food costs	59,558,452	-0-	59,558,452
Direct service grants	838,636	-0-	838,636
Personnel	4,352,921	-0-	4,352,921
Warehouse and building	1,512,532	-0-	1,512,532
Transportation	773,561	-0-	773,561
Administrative	313,035	-0-	313,035
Total Program Services	<u>67,349,137</u>	<u>-0-</u>	<u>67,349,137</u>
Supporting services			
Management and general	2,472,614	-0-	2,472,614
Fundraising	3,182,742	-0-	3,182,742
Total Supporting Services	<u>5,655,356</u>	<u>-0-</u>	<u>5,655,356</u>
Total Expenses	<u>73,004,493</u>	<u>-0-</u>	<u>73,004,493</u>
Change in Net Assets	122,647	(483,280)	(360,633)
Net Assets at Beginning of Year	13,936,152	2,115,550	16,051,702
Net Assets at End of Year	\$ 14,058,799	\$ 1,632,270	\$ 15,691,069

2016

Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
\$ 56,677,205	\$ -0-	\$ 56,677,205	\$ (2,682,877)
8,327,574	5,042,751	13,370,325	105,184
<u>65,004,779</u>	<u>5,042,751</u>	<u>70,047,530</u>	<u>(2,577,693)</u>
2,063,396	-0-	2,063,396	(70,564)
1,226,483	-0-	1,226,483	(30,334)
1,114,852	-0-	1,114,852	270,086
460,837	-0-	460,837	(54,078)
222,382	-0-	222,382	(152,006)
4,168	-0-	4,168	265,408
(7,573)	-0-	(7,573)	(165,714)
20,659	-0-	20,659	6,021
<u>5,105,204</u>	<u>-0-</u>	<u>5,105,204</u>	<u>68,819</u>
5,775,173	(5,775,173)	-0-	-0-
<u>75,885,156</u>	<u>(732,422)</u>	<u>75,152,734</u>	<u>(2,508,874)</u>
61,940,726	-0-	61,940,726	(2,382,274)
938,992	-0-	938,992	(100,356)
5,092,377	-0-	5,092,377	(739,456)
1,598,319	-0-	1,598,319	(85,787)
976,538	-0-	976,538	(202,977)
323,728	-0-	323,728	(10,693)
<u>70,870,680</u>	<u>-0-</u>	<u>70,870,680</u>	<u>(3,521,543)</u>
2,518,116	-0-	2,518,116	(45,502)
3,531,824	-0-	3,531,824	(349,082)
<u>6,049,940</u>	<u>-0-</u>	<u>6,049,940</u>	<u>(394,584)</u>
<u>76,920,620</u>	<u>-0-</u>	<u>76,920,620</u>	<u>(3,916,127)</u>
(1,035,464)	(732,422)	(1,767,886)	1,407,253
<u>14,971,616</u>	<u>2,847,972</u>	<u>17,819,588</u>	<u>(1,767,886)</u>
<u>\$ 13,936,152</u>	<u>\$ 2,115,550</u>	<u>\$ 16,051,702</u>	<u>\$ (360,633)</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, 2017 and 2016

	2017			
	Program Services	Manage- ment and General	Fund- raising	Total
Program Food Costs				
Value of donated goods distributed	\$ 54,614,601	\$ -0-	\$ -0-	\$ 54,614,601
Cost of purchased goods sold	4,065,061	-0-	-0-	4,065,061
Processing and other costs	878,790	-0-	-0-	878,790
Total Program Food Costs	<u>59,558,452</u>	<u>-0-</u>	<u>-0-</u>	<u>59,558,452</u>
Direct Service Grants	<u>838,636</u>	<u>-0-</u>	<u>-0-</u>	<u>838,636</u>
Personnel Expenses				
Salaries and wages	3,005,155	1,272,923	1,139,538	5,417,616
Employee benefits	781,879	222,645	193,904	1,198,428
Payroll taxes	318,919	108,892	118,213	546,024
Pension	167,782	79,120	55,621	302,523
Outside labor	79,186	23,772	-0-	102,958
Total Personnel Expenses	<u>4,352,921</u>	<u>1,707,352</u>	<u>1,507,276</u>	<u>7,567,549</u>
Warehouse and Building Expenses				
Depreciation	716,965	-0-	47,162	764,127
Repairs and maintenance supplies	364,263	-0-	-0-	364,263
Utilities	288,546	9,082	6,941	304,569
Trash service	92,703	-0-	-0-	92,703
Insurance	50,055	-0-	-0-	50,055
Total Warehouse and Building Expenses	<u>1,512,532</u>	<u>9,082</u>	<u>54,103</u>	<u>1,575,717</u>
Transportation Expenses				
Depreciation	318,434	-0-	-0-	318,434
Fuel	140,579	-0-	-0-	140,579
Rent	59,055	-0-	-0-	59,055
Repairs and maintenance	99,728	296	-0-	100,024
Insurance	91,641	-0-	-0-	91,641
Licenses, fees and tolls	35,173	12	-0-	35,185
Freight	28,951	8	-0-	28,959
Total Transportation Expenses	<u>773,561</u>	<u>316</u>	<u>-0-</u>	<u>773,877</u>

2016

Program Services	Management and General	Fund-raising	Total	Increase (Decrease)
\$ 56,363,841	\$ -0-	\$ -0-	\$ 56,363,841	\$ (1,749,240)
4,693,398	-0-	-0-	4,693,398	(628,337)
883,487	-0-	-0-	883,487	(4,697)
<u>61,940,726</u>	<u>-0-</u>	<u>-0-</u>	<u>61,940,726</u>	<u>(2,382,274)</u>
938,992	-0-	-0-	938,992	(100,356)
3,558,730	1,403,948	1,531,890	6,494,568	(1,076,952)
913,610	190,512	154,308	1,258,430	(60,002)
320,002	107,138	126,895	554,035	(8,011)
184,327	76,601	76,495	337,423	(34,900)
115,708	1,603	1,625	118,936	(15,978)
<u>5,092,377</u>	<u>1,779,802</u>	<u>1,891,213</u>	<u>8,763,392</u>	<u>(1,195,843)</u>
763,936	-0-	44,630	808,566	(44,439)
388,725	-0-	-0-	388,725	(24,462)
275,464	8,934	6,824	291,222	13,347
120,132	165	-0-	120,297	(27,594)
50,062	-0-	-0-	50,062	(7)
<u>1,598,319</u>	<u>9,099</u>	<u>51,454</u>	<u>1,658,872</u>	<u>(83,155)</u>
313,686	-0-	-0-	313,686	4,748
173,826	-0-	-0-	173,826	(33,247)
149,172	-0-	-0-	149,172	(90,117)
137,910	471	-0-	138,381	(38,357)
101,794	-0-	-0-	101,794	(10,153)
63,630	2	-0-	63,632	(28,447)
36,520	16	-0-	36,536	(7,577)
<u>976,538</u>	<u>489</u>	<u>-0-</u>	<u>977,027</u>	<u>(203,150)</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, 2017 and 2016

	2017			
	Program Services	Manage- ment and General	Fund- raising	Total
Administrative Expenses				
Printing	\$ 521	\$ -0-	\$ 395,053	\$ 395,574
Professional fees	21,863	305,011	575,160	902,034
Office and administrative expenses	56,335	47,390	160,160	263,885
Postage	2,916	1,567	293,338	297,821
Interest	39,573	210,326	-0-	249,899
Public relations	42,481	6,681	162,096	211,258
Telephone	49,636	32,750	10,204	92,590
Computer and service bureau	1,151	80,306	348	81,805
Insurance	502	18,763	-0-	19,265
Travel and lodging	23,738	4,747	15,936	44,421
Offsite rent and storage	60,475	-0-	-0-	60,475
Depreciation and amortization	-0-	13,763	-0-	13,763
Dues and subscriptions	6,840	32,649	5,235	44,724
Seminars and conferences	5,138	975	3,833	9,946
Bad debt expense	1,866	936	-0-	2,802
Total Administrative Expenses	<u>313,035</u>	<u>755,864</u>	<u>1,621,363</u>	<u>2,690,262</u>
Total Expenses	<u>\$ 67,349,137</u>	<u>\$ 2,472,614</u>	<u>\$ 3,182,742</u>	<u>\$ 73,004,493</u>

2016

Program Services	Manage- ment and General	Fund- raising	Total	Increase (Decrease)
\$ 1,079	\$ 729	\$ 651,412	\$ 653,220	\$ (257,646)
20,011	227,162	342,350	589,523	312,511
75,572	70,436	161,494	307,502	(43,617)
3,636	1,711	269,100	274,447	23,374
27,196	189,423	-0-	216,619	33,280
38,496	445	139,004	177,945	33,313
52,805	39,969	12,733	105,507	(12,917)
2,608	97,660	526	100,794	(18,989)
502	25,984	-0-	26,486	(7,221)
37,972	18,956	8,255	65,183	(20,762)
60,148	-0-	-0-	60,148	327
-0-	20,026	-0-	20,026	(6,263)
3,311	33,302	3,513	40,126	4,598
300	975	770	2,045	7,901
92	1,948	-0-	2,040	762
323,728	728,726	1,589,157	2,641,611	48,651
\$ 70,870,680	\$ 2,518,116	\$ 3,531,824	\$ 76,920,620	\$ (3,916,127)

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

THE MARYLAND FOOD BANK, INC.
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (360,633)	\$ (1,767,886)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized loss (gain) on investments	(110,213)	258,407
Realized gain on sale of investments	(83,156)	(179,055)
Noncash contributions - investments	(132,505)	(95,370)
Provision for bad debts	2,802	2,040
Depreciation and amortization	1,113,931	1,167,156
Loss on sale of property	173,287	7,537
Changes in operating assets and liabilities:		
Accounts receivable	(5,837)	105,305
Pledges receivable	416,387	940,382
Inventories	435,337	(298,850)
Prepaid expenses	(13,535)	89,800
Accounts payable and accrued expenses	290,935	(749,472)
Payable, other	(256,000)	256,000
Deferred revenue	(83,586)	63,586
Net Cash Provided by (Used in) Operating Activities	<u>1,387,214</u>	<u>(200,420)</u>
Cash Flows from Investing Activities		
Purchases of investments	(66,621)	(101,306)
Proceeds from sale of investments	128,484	859,002
Purchase of property	(543,898)	(258,677)
Proceeds from sale of property	149,376	12,425
Net Cash Provided by (Used in) Investing Activities	<u>(332,659)</u>	<u>511,444</u>
Cash Flows from Financing Activities		
Payments on capital lease obligations	(201,328)	(186,690)
Payments on mortgages payable	(193,980)	-0-
Acquisition of deferred financing costs	-0-	(19,748)
Net Cash Used in Financing Activities	<u>(395,308)</u>	<u>(206,438)</u>
Net Increase in Cash and Cash Equivalents	659,247	104,586
Cash and Cash Equivalents at Beginning of Year	<u>4,011,897</u>	<u>3,907,311</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,671,144</u></u>	<u><u>\$ 4,011,897</u></u>

	<u>2017</u>	<u>2016</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 211,164</u>	<u>\$ 191,742</u>
Noncash Investing and Financing Activities		
Acquisition of property	\$ 543,898	\$ 3,412,871
Less: property acquired through capital leases	-0-	(666,570)
Less: property acquired through debt financing	-0-	(2,487,624)
Net cash paid for property	<u>\$ 543,898</u>	<u>\$ 258,677</u>
Sale of property		
Proceeds from sale of land and building, net	\$ 2,306,020	\$ -0-
Less: repayment of mortgage	(2,500,000)	-0-
Net cash paid on mortgage payable	<u>\$ (193,980)</u>	<u>\$ -0-</u>
Debt activity		
Proceeds from long-term debt	\$ -0-	\$ 2,500,000
Less: property acquired through debt financing	-0-	(2,487,624)
Less: deferred financing costs	-0-	(12,376)
Net cash received from long-term debt activity	<u>\$ -0-</u>	<u>\$ -0-</u>

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, the Food Bank did not have any permanently restricted net assets.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, inventory received and distributed was valued at \$1.67 and \$1.70 per pound, respectively. As of June 30, 2017 and 2016, the inventory on hand was adjusted to \$1.73 and \$1.67 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.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Property: Property is stated at cost or, if donated, at the approximate fair value at the date of donation, less accumulated depreciation. 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. 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 as follows:

Buildings and improvements	10 - 40 years
Automobile equipment	5 - 7 years
Furniture and fixtures	3 - 20 years
Warehouse equipment	4 - 15 years

Deferred Financing Costs: The deferred financing costs represent costs incurred to secure debt financing (see Note 6) which are being amortized over the life of the respective debt instrument utilizing the straight-line method. Deferred financing costs as of June 30, 2017 and 2016 are as follows:

	2017	2016
Deferred financing costs	\$ 75,265	\$ 108,378
Accumulated amortization	(30,500)	(24,878)
	<u>\$ 44,765</u>	<u>\$ 83,500</u>

As of July 1, 2016, the Food Bank adopted ASU 2015-3, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*. The adoption of this ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct reduction from the carrying amount of the debt liability.

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, 2017 and 2016. 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.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Reclassification: Certain amounts previously reported in the financial statements for the year ended June 30, 2016 have been reclassified to conform to the financial statement presentation for the year ended June 30, 2017.

Subsequent Events: In preparing these financial statements, the Food Bank has evaluated events and transactions for the potential recognition or disclosure through December 15, 2017, the date the financial statements were available to be issued. During the period July 1, 2017 through December 15, 2017, the Food Bank did not have any other material recognizable subsequent events.

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.

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.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 2: Investments and Fair Value Measurement (Continued)

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, 2017 and 2016:

	2017			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents held for investment	\$ 111,621	\$ 111,621	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,218,383	1,218,383	-0-	-0-
Bond funds	856,493	856,493	-0-	-0-
International funds	464,661	464,661	-0-	-0-
Total Investments	<u>\$ 2,651,158</u>	<u>\$ 2,651,158</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

	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>

Investment income, net, as reported on the statements of activities for the years ended June 30, 2017 and 2016 is comprised of the following:

	2017	2016
Interest and dividend income	\$ 89,604	\$ 101,306
Net unrealized gains (losses)	110,213	(258,407)
Net realized gains	83,156	179,055
Investment fees	(13,397)	(17,786)
Total Investment Income, Net	<u>\$ 269,576</u>	<u>\$ 4,168</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 3: Pledges Receivable

Pledges receivable as of June 30, 2017 and 2016 consisted of the following unconditional promises to give:

	2017	2016
Receivable in less than one year	\$ 252,484	\$ 596,045
Receivable in one to five years	212,880	273,066
Receivable greater than five years	30,000	40,000
Total pledge receivable	495,364	909,111
Present value discount (1.38% - 2.31%)	(10,498)	(7,858)
Net pledges receivable	<u>\$ 484,866</u>	<u>\$ 901,253</u>

Note 4: Inventories

Inventories of donated and purchased food as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Baltimore:		
Donated	\$ 599,056	\$ 1,087,525
TEFAP	305,807	283,071
Out on consignment (at cost)	1,807	7,129
Purchased (at cost)	399,882	186,164
	<u>1,306,552</u>	<u>1,563,889</u>
Salisbury:		
Donated	93,017	235,956
TEFAP	501	31,417
Purchased (at cost)	32,478	36,623
	<u>125,996</u>	<u>303,996</u>
Total Inventories	<u>\$ 1,432,548</u>	<u>\$ 1,867,885</u>

Note 5: Line of Credit

The Food Bank has 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, 2017 and 2016, the interest rate was 2.82% and 2.05%, respectively. The LOC matures on February 28, 2019 and requires the same financial covenants as the mortgage payable (see Note 6). As of June 30, 2017 and 2016, there were no outstanding borrowings on the LOC.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 6: 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, 2017 and 2016, the interest rate was 2.75% and 1.95%, 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, with a balloon payment of \$5,510,400. 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 was 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. With the sale of the property on December 29, 2016, this note was paid in full and all collateral requirements were released.

Mortgages payable as of June 30, 2017 and 2016 are as follows:

	2017	2016
Mortgages Payable	\$ 6,560,000	\$ 9,060,000
Less unamortized deferred financing costs	(44,765)	(83,500)
Mortgages Payable, Net	<u>\$ 6,515,235</u>	<u>\$ 8,976,500</u>

The aggregate annual maturities of the mortgage payable and the annual amortization of unamortized deferred financing costs are as follows:

Year Ending June 30:	Mortgage Payable	Deferred Financing Costs	Total
2018	\$ -0-	\$ (8,953)	\$ (8,953)
2019	262,400	(8,953)	253,447
2020	262,400	(8,953)	253,447
2021	262,400	(8,953)	253,447
2022	5,772,800	(8,953)	5,763,847
Total	<u>\$ 6,560,000</u>	<u>\$ (44,765)</u>	<u>\$ 6,515,235</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, 2017 and 2016

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, 2017 and 2016 was \$489,389 and \$272,440, respectively.

As of June 30, 2017, future minimum lease payments under the capital lease obligations, summarized by year, are as follows:

Year Ending June 30:		
2018	\$	237,243
2019		224,148
2020		215,403
2021		203,160
2022		156,150
Thereafter		<u>60,216</u>
Total minimum lease payments remaining		1,096,320
Less: Amount representing interest (.96% to 3.97%)		<u>83,667</u>
Present value of future minimum lease payments		1,012,653
Less current maturities of capital lease obligations		<u>(208,748)</u>
Long term portion of capital lease obligations	\$	<u><u>803,905</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, 2017 and 2016:

	Year Ended June 30, 2017			
	Balance at June 30, 2016	Contributions	Released From Restrictions	Balance at June 30, 2017
Capital campaign	1,418,359	\$ 62,500	\$ (739,595)	\$ 741,264
Youth programs	276,603	1,305,708	(1,265,711)	316,600
Food distribution	395,588	4,060,572	(3,981,754)	474,406
Capital projects	25,000	182,310	(107,310)	100,000
	<u>\$ 2,115,550</u>	<u>\$ 5,611,090</u>	<u>\$ (6,094,370)</u>	<u>\$ 1,632,270</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2017 and 2016

Note 8: Temporarily Restricted Net Assets (Continued)

	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>

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 \$-0- and \$740,000 during the years ended June 30, 2017 and 2016, respectively. The balance of the board designated fund was \$2,651,158 and \$2,387,147 as of June 30, 2017 and 2016, respectively.

Note 10: In-Kind Transactions

During the years ended June 30, 2017 and 2016, the Food Bank received and/or facilitated donated food valued at \$53,975,013 and \$56,661,260, 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, 2017 and 2016

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, 2017 and 2016 were \$302,523 and \$337,423, 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, 2017 and 2016 was \$229,226 and \$245,448, 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, 2017 and 2016 was \$22,923 and \$20,840, 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.

