

**THE MARYLAND FOOD BANK, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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## **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, 2018 and 2017, 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, 2018 and 2017, 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  
October 22, 2018

**THE MARYLAND FOOD BANK, INC.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,145,213	\$ 4,671,144
Investments	2,809,518	2,651,158
Accounts receivable	1,283,605	491,904
Pledges receivable, current	848,267	252,484
Inventories	2,418,926	1,432,548
Prepaid expenses	113,338	83,409
Total Current Assets	<u>11,618,867</u>	<u>9,582,647</u>
<b>Property</b>		
Land, building, and improvements	17,415,750	16,429,833
Automotive equipment	2,772,519	2,503,755
Furniture and fixtures	1,552,032	1,449,151
Warehouse equipment	1,730,793	1,534,230
Construction in progress	156,092	43,407
Total Cost	<u>23,627,186</u>	<u>21,960,376</u>
Less: Accumulated depreciation	<u>8,269,263</u>	<u>7,425,684</u>
Net Property	<u>15,357,923</u>	<u>14,534,692</u>
<b>Other Assets</b>		
Other assets, restricted	24,948	22,923
Assets held in trust	299,053	229,226
Pledge receivable, noncurrent	692,957	232,382
Total Other Assets	<u>1,016,958</u>	<u>484,531</u>
<b>Total Assets</b>	<u><u>\$ 27,993,748</u></u>	<u><u>\$ 24,601,870</u></u>

	<u>2018</u>	<u>2017</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,316,589	\$ 1,130,764
Current maturities of capital lease obligations	234,198	208,748
Current maturities of mortgages payable	143,301	-0-
Total Current Liabilities	<u>1,694,088</u>	<u>1,339,512</u>
<b>Non-Current Liabilities</b>		
Mortgages payable, net of current maturities	6,342,259	6,515,235
Capital lease obligations, net of current maturities	800,671	803,905
Deferred compensation payable	324,001	252,149
Total Non-Current Liabilities	<u>7,466,931</u>	<u>7,571,289</u>
<b>Total Liabilities</b>	<u>9,161,019</u>	<u>8,910,801</u>
<b>Commitments (Notes 7, 11, 12 and 14)</b>		
<b>Net Assets</b>		
Unrestricted		
General operations	12,642,164	10,365,909
Board designated	2,809,518	2,651,158
Total Unrestricted	<u>15,451,682</u>	<u>13,017,067</u>
Temporarily restricted	3,381,047	2,674,002
Total Net Assets	<u>18,832,729</u>	<u>15,691,069</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 27,993,748</u>	<u>\$ 24,601,870</u>

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

**THE MARYLAND FOOD BANK, INC.**  
**Statements of Activities**  
**Years Ended June 30, 2018 and 2017**

	2018		
	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Support			
Contributions - in-kind	\$ 55,313,079	\$ -0-	\$ 55,313,079
Contributions - other	9,439,629	7,723,367	17,162,996
Total	<u>64,752,708</u>	<u>7,723,367</u>	<u>72,476,075</u>
Revenue			
Sales to agencies, net of returns	2,486,114	-0-	2,486,114
Contracted meals	1,053,358	-0-	1,053,358
Program fees	1,286,753	-0-	1,286,753
Shared maintenance	375,449	-0-	375,449
Delivery income	16,135	-0-	16,135
Investment income, net	173,340	-0-	173,340
Loss on disposal of property	-0-	-0-	-0-
Other revenue	32,295	-0-	32,295
Total	<u>5,423,444</u>	<u>-0-</u>	<u>5,423,444</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	7,016,322	(7,016,322)	-0-
Total Support and Revenue	<u>77,192,474</u>	<u>707,045</u>	<u>77,899,519</u>
<b>Expenses</b>			
Program services			
Program food costs	59,929,086	-0-	59,929,086
Direct service grants	873,953	-0-	873,953
Personnel	5,026,367	-0-	5,026,367
Warehouse and building	1,531,215	-0-	1,531,215
Transportation	882,581	-0-	882,581
Administrative	342,688	-0-	342,688
Total Program Services	<u>68,585,890</u>	<u>-0-</u>	<u>68,585,890</u>
Supporting services			
Management and general	2,383,536	-0-	2,383,536
Fundraising	3,788,433	-0-	3,788,433
Total Supporting Services	<u>6,171,969</u>	<u>-0-</u>	<u>6,171,969</u>
Total Expenses	<u>74,757,859</u>	<u>-0-</u>	<u>74,757,859</u>
<b>Change in Net Assets</b>	<b>2,434,615</b>	<b>707,045</b>	<b>3,141,660</b>
<b>Net Assets at Beginning of Year</b>	<b>13,017,067</b>	<b>2,674,002</b>	<b>15,691,069</b>
<b>Net Assets at End of Year</b>	<b><u>\$ 15,451,682</u></b>	<b><u>\$ 3,381,047</u></b>	<b><u>\$ 18,832,729</u></b>

**2017**

Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
\$ 53,994,328	\$ -0-	\$ 53,994,328	\$ 1,318,751
7,864,419	5,611,090	13,475,509	3,687,487
<u>61,858,747</u>	<u>5,611,090</u>	<u>67,469,837</u>	<u>5,006,238</u>
1,992,832	-0-	1,992,832	493,282
1,196,149	-0-	1,196,149	(142,791)
1,384,938	-0-	1,384,938	(98,185)
406,759	-0-	406,759	(31,310)
70,376	-0-	70,376	(54,241)
269,576	-0-	269,576	(96,236)
(173,287)	-0-	(173,287)	173,287
26,680	-0-	26,680	5,615
<u>5,174,023</u>	<u>-0-</u>	<u>5,174,023</u>	<u>249,421</u>
6,094,370	(6,094,370)	-0-	-0-
<u>73,127,140</u>	<u>(483,280)</u>	<u>72,643,860</u>	<u>5,255,659</u>
59,558,452	-0-	59,558,452	370,634
838,636	-0-	838,636	35,317
4,352,921	-0-	4,352,921	673,446
1,512,532	-0-	1,512,532	18,683
773,561	-0-	773,561	109,020
313,035	-0-	313,035	29,653
<u>67,349,137</u>	<u>-0-</u>	<u>67,349,137</u>	<u>1,236,753</u>
2,472,614	-0-	2,472,614	(89,078)
3,182,742	-0-	3,182,742	605,691
<u>5,655,356</u>	<u>-0-</u>	<u>5,655,356</u>	<u>516,613</u>
<u>73,004,493</u>	<u>-0-</u>	<u>73,004,493</u>	<u>1,753,366</u>
122,647	(483,280)	(360,633)	3,502,293
<u>12,894,420</u>	<u>3,157,282</u>	<u>16,051,702</u>	<u>(360,633)</u>
<u>\$ 13,017,067</u>	<u>\$ 2,674,002</u>	<u>\$ 15,691,069</u>	<u>\$ 3,141,660</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, 2018 and 2017**

	2018			
	Program Services	Manage- ment and General	Fundraising	Total
<b>Program Food Costs</b>				
Value of donated goods distributed	\$ 54,253,017	\$ -0-	\$ -0-	\$ 54,253,017
Cost of purchased goods sold	4,783,256	-0-	-0-	4,783,256
Processing and other costs	892,813	-0-	-0-	892,813
Total Program Food Costs	<u>59,929,086</u>	<u>-0-</u>	<u>-0-</u>	<u>59,929,086</u>
<b>Direct Service Grants</b>	<u>873,953</u>	<u>-0-</u>	<u>-0-</u>	<u>873,953</u>
<b>Personnel Expenses</b>				
Salaries and wages	3,488,664	1,173,361	1,384,815	6,046,840
Employee benefits	854,096	218,485	165,149	1,237,730
Payroll taxes	348,774	100,602	133,712	583,088
Pension	188,664	38,427	50,446	277,537
Outside labor	146,169	4,502	-0-	150,671
Total Personnel Expenses	<u>5,026,367</u>	<u>1,535,377</u>	<u>1,734,122</u>	<u>8,295,866</u>
<b>Warehouse and Building Expenses</b>				
Depreciation	693,445	-0-	20,996	714,441
Repairs and maintenance supplies	468,699	-0-	-0-	468,699
Utilities	237,374	26,042	5,951	269,367
Trash service	86,668	-0-	-0-	86,668
Insurance	45,029	-0-	-0-	45,029
Total Warehouse and Building Expenses	<u>1,531,215</u>	<u>26,042</u>	<u>26,947</u>	<u>1,584,204</u>
<b>Transportation Expenses</b>				
Depreciation	318,353	-0-	-0-	318,353
Fuel	183,006	-0-	-0-	183,006
Rent	102,335	-0-	-0-	102,335
Repairs and maintenance	108,741	268	-0-	109,009
Insurance	81,300	-0-	-0-	81,300
Licenses, fees and tolls	49,225	15	-0-	49,240
Freight	39,621	22	-0-	39,643
Total Transportation Expenses	<u>882,581</u>	<u>305</u>	<u>-0-</u>	<u>882,886</u>

**2017**

<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>	<b>Increase (Decrease)</b>
\$ 54,614,601	\$ -0-	\$ -0-	\$ 54,614,601	\$ (361,584)
4,065,061	-0-	-0-	4,065,061	718,195
878,790	-0-	-0-	878,790	14,023
<u>59,558,452</u>	<u>-0-</u>	<u>-0-</u>	<u>59,558,452</u>	<u>370,634</u>
838,636	-0-	-0-	838,636	35,317
3,005,155	1,272,923	1,139,538	5,417,616	629,224
781,879	222,645	193,904	1,198,428	39,302
318,919	108,892	118,213	546,024	37,064
167,782	79,120	55,621	302,523	(24,986)
79,186	23,772	-0-	102,958	47,713
<u>4,352,921</u>	<u>1,707,352</u>	<u>1,507,276</u>	<u>7,567,549</u>	<u>728,317</u>
716,965	-0-	47,162	764,127	(49,686)
364,263	-0-	-0-	364,263	104,436
288,546	9,082	6,941	304,569	(35,202)
92,703	-0-	-0-	92,703	(6,035)
50,055	-0-	-0-	50,055	(5,026)
<u>1,512,532</u>	<u>9,082</u>	<u>54,103</u>	<u>1,575,717</u>	<u>8,487</u>
318,434	-0-	-0-	318,434	(81)
140,579	-0-	-0-	140,579	42,427
59,055	-0-	-0-	59,055	43,280
99,728	296	-0-	100,024	8,985
91,641	-0-	-0-	91,641	(10,341)
35,173	12	-0-	35,185	14,055
28,951	8	-0-	28,959	10,684
<u>773,561</u>	<u>316</u>	<u>-0-</u>	<u>773,877</u>	<u>109,009</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, 2018 and 2017**

	<b>2018</b>			
	<b>Program Services</b>	<b>Manage- ment and General</b>	<b>Fundraising</b>	<b>Total</b>
<b>Administrative Expenses</b>				
Printing	\$ 428	\$ -0-	\$ 494,518	\$ 494,946
Professional fees	20,085	229,629	595,947	845,661
Office and administrative expenses	87,317	91,264	179,939	358,520
Postage	1,316	1,644	359,732	362,692
Interest	30,956	246,154	-0-	277,110
Public relations	5,900	3,059	291,020	299,979
Telephone	82,181	18,920	17,216	118,317
Computer and service bureau	4,365	137,869	447	142,681
Insurance	-0-	27,223	-0-	27,223
Travel and lodging	41,635	11,757	13,744	67,136
Offsite rent and storage	61,282	-0-	-0-	61,282
Depreciation	-0-	9,993	-0-	9,993
Dues and subscriptions	1,730	33,206	5,307	40,243
Seminars and conferences	5,384	6,138	3,494	15,016
Bad debt expense	109	4,956	66,000	71,065
Total Administrative Expenses	<u>342,688</u>	<u>821,812</u>	<u>2,027,364</u>	<u>3,191,864</u>
<b>Total Expenses</b>	<u>\$ 68,585,890</u>	<u>\$ 2,383,536</u>	<u>\$ 3,788,433</u>	<u>\$ 74,757,859</u>

**2017**

<b>Program Services</b>	<b>Manage- ment and General</b>	<b>Fundraising</b>	<b>Total</b>	<b>Increase (Decrease)</b>
\$ 521	\$ -0-	\$ 395,053	\$ 395,574	\$ 99,372
21,863	305,011	575,160	902,034	(56,373)
56,335	47,390	160,160	263,885	94,635
2,916	1,567	293,338	297,821	64,871
39,573	210,326	-0-	249,899	27,211
42,481	6,681	162,096	211,258	88,721
49,636	32,750	10,204	92,590	25,727
1,151	80,306	348	81,805	60,876
502	18,763	-0-	19,265	7,958
23,738	4,747	15,936	44,421	22,715
60,475	-0-	-0-	60,475	807
-0-	13,763	-0-	13,763	(3,770)
6,840	32,649	5,235	44,724	(4,481)
5,138	975	3,833	9,946	5,070
1,866	936	-0-	2,802	68,263
<b>313,035</b>	<b>755,864</b>	<b>1,621,363</b>	<b>2,690,262</b>	<b>501,602</b>
<b>\$ 67,349,137</b>	<b>\$ 2,472,614</b>	<b>\$ 3,182,742</b>	<b>\$ 73,004,493</b>	<b>\$ 1,753,366</b>

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

**THE MARYLAND FOOD BANK, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 3,141,660	\$ (360,633)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized loss (gain) on investments	34,583	(110,213)
Realized gain on sale of investments	(79,439)	(83,156)
Noncash contributions - investments	(170,476)	(132,505)
Provision for bad debts	71,065	2,802
Depreciation and amortization	1,088,203	1,113,931
Loss on sale of property	-0-	173,287
Changes in operating assets and liabilities:		
Accounts receivable	(862,766)	(5,837)
Pledges receivable	(1,056,358)	416,387
Inventories	(986,378)	435,337
Prepaid expenses	(29,929)	(13,535)
Accounts payable and accrued expenses	185,825	290,935
Payable, other	-0-	(256,000)
Deferred revenue	-0-	(83,586)
Net Cash Provided by Operating Activities	<u>1,335,990</u>	<u>1,387,214</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(325,473)	(66,621)
Proceeds from sale of investments	382,445	128,484
Purchase of property	(1,613,569)	(543,898)
Proceeds from sale of property	-0-	149,376
Net Cash Used in Investing Activities	<u>(1,556,597)</u>	<u>(332,659)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on capital lease obligations	(230,237)	(201,328)
Payments on mortgages payable	(36,217)	(193,980)
Payments of deferred financing costs	(38,870)	-0-
Net Cash Used in Financing Activities	<u>(305,324)</u>	<u>(395,308)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(525,931)	659,247
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>4,671,144</u>	<u>4,011,897</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 4,145,213</u>	<u>\$ 4,671,144</u>

	<u>2018</u>	<u>2017</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	<u>\$ 231,697</u>	<u>\$ 211,164</u>
<b>Noncash Investing and Financing Activities</b>		
Acquisition of property	<u>\$ 1,866,021</u>	<u>\$ 543,898</u>
Less: property acquired through capital leases	<u>(252,452)</u>	<u>-0-</u>
Net cash paid for property	<u>\$ 1,613,569</u>	<u>\$ 543,898</u>
Sale of property		
Proceeds from sale of land and building, net	<u>\$ -0-</u>	<u>\$ 2,306,020</u>
Less: repayment of mortgage	<u>-0-</u>	<u>(2,500,000)</u>
Net cash paid on mortgage payable	<u>\$ -0-</u>	<u>\$ (193,980)</u>

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

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**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 which commenced operations in the following year. The Food Bank 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, 2018 and 2017, 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, 2018 and 2017**

**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, 2018 and 2017, 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, 2018 and 2017, since in the opinion of management all outstanding pledges receivable are collectible.

Investments: Investments with readily determinable fair 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, 2018 and 2017, inventory received and distributed was valued at \$1.73 and \$1.67 per pound, respectively. As of June 30, 2018 and 2017, the inventory on hand was adjusted to \$1.68 and \$1.73 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, 2018 and 2017**

**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. The Food Bank refinanced its existing mortgage debt in April 2018, incurring new deferred financing costs. As a result of this refinancing, the unamortized balance of the previous deferred financing costs were fully amortized during the year ended June 30, 2018. Deferred financing costs as of June 30, 2018 and 2017 are as follows:

	2018	2017
Deferred financing costs	\$ 38,870	\$ 75,265
Accumulated amortization	(648)	(30,500)
	<u>\$ 38,222</u>	<u>\$ 44,765</u>

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. There were no donated services that qualified for recognition during the years ended June 30, 2018 and 2017.

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, 2018 and 2017. 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.

Reclassification: Certain amounts previously reported in the financial statements for the year ended June 30, 2017 have been reclassified to conform to the financial statement presentation for the year ended June 30, 2018.

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2016-02, *Leases*, which will be effective for fiscal years beginning after December 15, 2019. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as either property or as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt the standard and will assess the future impact on any leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. The primary impact of this standard is as follows: a) Net Asset Classification: The three categories of net assets will be condensed to two categories: Without Donor Restrictions and With Donor Restrictions. Not-for-profits may choose to disaggregate net assets further within the two categories. b) Board-Designated Net Assets: Not-for-profits will need to disclose the amount, purpose and type of board designation either on the face of the financials or in the notes to the financial statements. Board-designated nets assets remain a subgroup of net assets without donor restrictions. c) Underwater Endowment Assets: Although the underwater calculation remains unchanged, instead of classifying the underwater portion against unrestricted net assets without donor restrictions, it will go against the net assets with donor restrictions. There are also certain additional disclosures such as any board policy or actions taken regarding appropriation from such funds. d) Cash Flow Statement: Not-for-profits will still have the option of presenting operating cash flows using the direct method or the indirect method. If the direct method is chosen, the indirect reconciliation is not required. e) Expenses: Expenses will be required to be presented both by function and by nature, but it is flexible as to how (in statement form or in the footnotes). A qualitative disclosure about how costs are allocated by function will also be required. External and internal direct investment expenses will be netted against investment return on the statement of activities. Disclosure of investment return components will no longer be required. f) Liquidity and Availability: The standard will require (1) quantitative disclosure about availability of financial assets to meet cash needs for general expenditures within one year of the statement of financial position date, and (2) qualitative disclosure about liquidity, presented in the notes, including information about liquidity risk and how the liquid available resources are managed. Management has chosen not to early adopt this standard but will assess this impact on future financial statements.

Subsequent Events: In preparing these financial statements, the Food Bank has evaluated events and transactions for the potential recognition or disclosure through October 22, 2018, the date the financial statements were available to be issued. During the period July 1, 2018 through October 22, 2018, the Food Bank did not have any other material recognizable subsequent events.

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 2: Investments and Fair Value Measurement**

Generally Accepted Accounting Principles (GAAP) 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.

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, 2018 and 2017:

	2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents held for investment	\$ 99,098	\$ 99,098	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,160,899	1,160,899	-0-	-0-
Bond funds	1,057,777	1,057,777	-0-	-0-
International funds	491,744	491,744	-0-	-0-
<b>Total Investments</b>	<b>\$ 2,809,518</b>	<b>\$ 2,809,518</b>	<b>\$ -0-</b>	<b>\$ -0-</b>

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 2: Investments and Fair Value Measurement (Continued)**

	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-
<b>Total Investments</b>	<b>\$ 2,651,158</b>	<b>\$ 2,651,158</b>	<b>\$ -0-</b>	<b>\$ -0-</b>

Investment income, net, as reported on the statements of activities for the years ended June 30, 2018 and 2017 is comprised of the following:

	2018	2017
Interest and dividend income	\$ 141,242	\$ 89,604
Net unrealized gains (losses)	(34,583)	110,213
Net realized gains	79,439	83,156
Investment fees	(12,758)	(13,397)
<b>Total Investment Income, Net</b>	<b>\$ 173,340</b>	<b>\$ 269,576</b>

**Note 3: Pledges Receivable**

Pledges receivable as of June 30, 2018 and 2017 consisted of the following unconditional promises to give:

	2018	2017
Receivable in less than one year	\$ 848,267	\$ 252,484
Receivable in one to five years	717,674	212,880
Receivable greater than five years	10,000	30,000
Total pledge receivable	1,575,941	495,364
Present value discount (1.38% - 3%)	(34,717)	(10,498)
<b>Net pledges receivable</b>	<b>\$ 1,541,224</b>	<b>\$ 484,866</b>

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 4: Inventories**

Inventories of donated and purchased food as of June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Baltimore:		
Donated	\$ 1,153,190	\$ 599,056
TEFAP	800,888	305,807
Out on consignment (at cost)	5,453	1,807
Purchased (at cost)	361,371	399,882
	<u>2,320,902</u>	<u>1,306,552</u>
Salisbury:		
Donated	50,338	93,017
TEFAP	7,244	501
Purchased (at cost)	40,442	32,478
	<u>98,024</u>	<u>125,996</u>
Total Inventories	<u>\$ 2,418,926</u>	<u>\$ 1,432,548</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, 2018 and 2017, the interest rate was 3.68% and 2.82%, respectively. The LOC matures on February 28, 2020 and requires the same financial covenants as the mortgage payable (see Note 6). As of June 30, 2018 and 2017, there were no outstanding borrowings on the LOC.

**Note 6: Mortgages Payable**

On April 4, 2018, the Food Bank refinanced 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 4.49%. Prior to refinancing the interest rate was based on the one month LIBOR rate plus 1.5%. As of June 30, 2017, the interest rate was 2.75%. Commencing in April 2018, monthly payments of \$36,658 are required until the note matures on April 1, 2033, with a balloon payment of \$3,551,676. The note can be prepaid at any time subject to a fee, starting at 3% of the amount prepaid and decreasing over specific timeframes until April 2028, at which time the note may be prepaid without premium or penalty.

Mortgages payable as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Mortgages Payable	\$ 6,523,782	\$ 6,560,000
Less unamortized deferred financing costs	(38,222)	(44,765)
Mortgages Payable, Net	<u>\$ 6,485,560</u>	<u>\$ 6,515,235</u>

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
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**Note 6: Mortgages Payable (Continued)**

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
2019	\$ 145,892	\$ (2,591)	\$ 143,301
2020	152,674	(2,591)	150,083
2021	159,771	(2,591)	157,180
2022	167,198	(2,591)	164,607
2023	174,971	(2,591)	172,380
Thereafter	5,723,276	(25,267)	5,698,009
Total	<u>\$ 6,523,782</u>	<u>\$ (38,222)</u>	<u>\$ 6,485,560</u>

**Note 7: Commitments**

Land Lease: The Food Bank leases land in Salisbury, Maryland from Wicomico County, Maryland for \$1 per year, under a lease agreement that expires on July 31, 2040.

Capital Lease Obligations: The Food Bank leases fourteen trucks having a combined cost of \$1,739,086 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, 2018 and 2017 was \$718,360 and \$489,389, respectively.

As of June 30, 2018, future minimum lease payments under the capital lease obligations, summarized by year, are as follows:

Year Ending June 30:	
2019	\$ 265,524
2020	256,779
2021	244,536
2022	197,535
2023	95,946
Thereafter	<u>61,655</u>
Total minimum lease payments remaining	1,121,975
Less: Amount representing interest (.96% to 3.97%)	<u>87,106</u>
Present value of future minimum lease payments	1,034,869
Less current maturities of capital lease obligations	<u>(234,198)</u>
Long term portion of capital lease obligations	<u>\$ 800,671</u>

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
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**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, 2018 and 2017:

	Year Ended June 30, 2018			
	Balance at June 30, 2017	Contributions	Released From Restrictions	Balance at June 30, 2018
Capital campaign	\$ 1,782,996	\$ 62,500	\$ (720,113)	\$ 1,125,383
Youth programs	316,600	1,205,818	(1,163,494)	358,924
Food distribution	474,406	6,111,549	(4,962,077)	1,623,878
Capital projects	100,000	83,500	(168,138)	15,362
Network capacity	-0-	10,000	(2,500)	7,500
Technology	-0-	250,000	-0-	250,000
	<u>\$ 2,674,002</u>	<u>\$ 7,723,367</u>	<u>\$ (7,016,322)</u>	<u>\$ 3,381,047</u>
	Year Ended June 30, 2017			
	Balance at June 30, 2016	Contributions	Released From Restrictions	Balance at June 30, 2017
Capital campaign	\$ 2,460,091	\$ 62,500	\$ (739,595)	\$ 1,782,996
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>\$ 3,157,282</u>	<u>\$ 5,611,090</u>	<u>\$ (6,094,370)</u>	<u>\$ 2,674,002</u>

During the year ended June 30, 2018, management reevaluated its use of the capital campaign funds over the past several years, which included releases related to the cost of managing the campaign, and decided that the majority of the campaign costs and some of the fixed asset acquisitions charged against the capital campaign fund should have been funded by general operations. Therefore, management has reclassified the net assets balance between unrestricted net assets and temporarily restricted net assets (capital campaign). The capital campaign balance as of June 30, 2016 changed from \$1,418,359 to \$2,460,091.

**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 no withdrawals for the years ended June 30, 2018 and 2017. The balance of the board designated fund was \$2,809,518 and \$2,651,158 as of June 30, 2018 and 2017, respectively.

**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 10: In-Kind Transactions**

During the years ended June 30, 2018 and 2017, the Food Bank received and/or facilitated donated food valued at \$55,266,295 and \$53,975,013, 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.

**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, 2018 and 2017 were \$277,537 and \$302,523, 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, 2018 and 2017 was \$299,053 and \$229,226, 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, 2018 and 2017 was \$24,948 and \$22,923, respectively, which has been invested in a separate income-bearing account, referred to as other assets, restricted on the statements of financial position.



**THE MARYLAND FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**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**

Grant Requirements: 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.

Health Insurance Plan: The Food Bank maintains a self-funded health insurance plan covering its eligible employees. Under the plan, the Food Bank reimburses the plan administrator for the sum of the claim charges paid by the plan administrator. As part of this plan, the maximum claims liability is \$858,000 (Minimum Attachment Point - MAP) during the plan year, which represents all claims under the specific deductible. The stop-loss for any individual claim is \$60,000 per year. Once the individual reaches the specific deductible, the Food Bank's liability ends. Once aggregate claims reach the MAP, the Food Bank's liability also ends for the plan year.

