

THE MARYLAND FOOD BANK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 6, 2019

THE MARYLAND FOOD BANK, INC.
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,228,801	\$ 4,145,213
Investments	3,002,433	2,809,518
Accounts receivable	441,205	383,239
Grants receivable	1,830,196	929,225
Pledges receivable, current	665,905	848,267
Inventories	2,998,394	2,418,926
Prepaid expenses	194,883	113,338
Total Current Assets	<u>13,361,817</u>	<u>11,647,726</u>
Property		
Land, building, and improvements	17,594,043	17,415,750
Automotive equipment	2,851,680	2,772,519
Furniture and fixtures	1,823,097	1,552,032
Warehouse equipment	1,840,886	1,730,793
Construction in progress	7,477	156,092
Total Cost	<u>24,117,183</u>	<u>23,627,186</u>
Less: Accumulated depreciation	9,208,113	8,269,263
Net Property	<u>14,909,070</u>	<u>15,357,923</u>
Other Assets		
Other assets, restricted	409,242	324,001
Pledge receivable, noncurrent	398,903	692,957
Total Other Assets	<u>808,145</u>	<u>1,016,958</u>
Total Assets	<u><u>\$ 29,079,032</u></u>	<u><u>\$ 28,022,607</u></u>

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,746,436	\$ 1,345,448
Deferred revenue	68,348	-0-
Current maturities of capital lease obligations	249,688	234,198
Current maturities of mortgage payable	150,083	143,301
Total Current Liabilities	<u>2,214,555</u>	<u>1,722,947</u>
Non-Current Liabilities		
Mortgage payable, net of current maturities	6,192,151	6,342,259
Capital lease obligations, net of current maturities	652,968	800,671
Deferred compensation payable	409,242	324,001
Total Non-Current Liabilities	<u>7,254,361</u>	<u>7,466,931</u>
Total Liabilities	<u>9,468,916</u>	<u>9,189,878</u>
Commitments (Notes 9, 11, 12 and 13)		
Net Assets		
Without donor restrictions		
General operations	14,061,404	12,642,164
Board designated	3,002,433	2,809,518
Total Without Donor Restrictions	<u>17,063,837</u>	<u>15,451,682</u>
With donor restrictions	2,546,279	3,381,047
Total Net Assets	<u>19,610,116</u>	<u>18,832,729</u>
Total Liabilities and Net Assets	<u>\$ 29,079,032</u>	<u>\$ 28,022,607</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Support			
Contributions - in-kind	\$ 56,563,815	\$ -0-	\$ 56,563,815
Contributions - other	13,591,971	2,778,370	16,370,341
Total	<u>70,155,786</u>	<u>2,778,370</u>	<u>72,934,156</u>
Revenue			
Sales to agencies, net	2,412,987	-0-	2,412,987
Contracted meals	1,209,884	-0-	1,209,884
Program fees	1,637,290	-0-	1,637,290
Shared maintenance	470,635	-0-	470,635
Delivery income	14,300	-0-	14,300
Net investment return	203,950	-0-	203,950
Loss on disposal of property	(7,497)	-0-	(7,497)
Other revenue	17,390	-0-	17,390
Total	<u>5,958,939</u>	<u>-0-</u>	<u>5,958,939</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	3,613,138	(3,613,138)	-0-
Total Support and Revenue	<u>79,727,863</u>	<u>(834,768)</u>	<u>78,893,095</u>
Expenses			
Program services			
Program food costs	62,609,186	-0-	62,609,186
Direct service grants	931,612	-0-	931,612
Personnel	5,790,188	-0-	5,790,188
Warehouse and building	1,537,221	-0-	1,537,221
Transportation	862,862	-0-	862,862
Administrative	561,663	-0-	561,663
Total Program Services	<u>72,292,732</u>	<u>-0-</u>	<u>72,292,732</u>
Supporting services			
Management and general	2,244,492	-0-	2,244,492
Fundraising	3,578,484	-0-	3,578,484
Total Supporting Services	<u>5,822,976</u>	<u>-0-</u>	<u>5,822,976</u>
Total Expenses	<u>78,115,708</u>	<u>-0-</u>	<u>78,115,708</u>
Change in Net Assets	1,612,155	(834,768)	777,387
Net Assets at Beginning of Year	<u>15,451,682</u>	<u>3,381,047</u>	<u>18,832,729</u>
Net Assets at End of Year	<u>\$ 17,063,837</u>	<u>\$ 2,546,279</u>	<u>\$ 19,610,116</u>

2018

Without Donor Restrictions	With Donor Restrictions	Total	Increase (Decrease)
\$ 55,313,079	\$ -0-	\$ 55,313,079	\$ 1,250,736
12,725,624	4,437,372	17,162,996	(792,655)
<u>68,038,703</u>	<u>4,437,372</u>	<u>72,476,075</u>	<u>458,081</u>
2,486,114	-0-	2,486,114	(73,127)
1,053,358	-0-	1,053,358	156,526
1,286,753	-0-	1,286,753	350,537
375,449	-0-	375,449	95,186
16,135	-0-	16,135	(1,835)
173,340	-0-	173,340	30,610
-0-	-0-	-0-	(7,497)
32,295	-0-	32,295	(14,905)
<u>5,423,444</u>	<u>-0-</u>	<u>5,423,444</u>	<u>535,495</u>
3,730,327	(3,730,327)	-0-	-0-
<u>77,192,474</u>	<u>707,045</u>	<u>77,899,519</u>	<u>993,576</u>
59,929,086	-0-	59,929,086	2,680,100
873,953	-0-	873,953	57,659
5,124,955	-0-	5,124,955	665,233
1,531,215	-0-	1,531,215	6,006
882,581	-0-	882,581	(19,719)
344,657	-0-	344,657	217,006
<u>68,686,447</u>	<u>-0-</u>	<u>68,686,447</u>	<u>3,606,285</u>
2,282,979	-0-	2,282,979	(38,487)
3,788,433	-0-	3,788,433	(209,949)
<u>6,071,412</u>	<u>-0-</u>	<u>6,071,412</u>	<u>(248,436)</u>
<u>74,757,859</u>	<u>-0-</u>	<u>74,757,859</u>	<u>3,357,849</u>
2,434,615	707,045	3,141,660	(2,364,273)
<u>13,017,067</u>	<u>2,674,002</u>	<u>15,691,069</u>	<u>3,141,660</u>
<u>\$ 15,451,682</u>	<u>\$ 3,381,047</u>	<u>\$ 18,832,729</u>	<u>\$ 777,387</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, 2019 and 2018

	2019			
	Program Services	Manage- ment and General	Fundraising	Total
Program Food Costs				
Value of donated goods distributed	\$ 56,024,697	\$ -0-	\$ -0-	\$ 56,024,697
Cost of purchased goods	5,498,983	-0-	-0-	5,498,983
Processing and other costs	1,085,506	-0-	-0-	1,085,506
Total Program Food Costs	<u>62,609,186</u>	<u>-0-</u>	<u>-0-</u>	<u>62,609,186</u>
Direct Service Grants	<u>931,612</u>	<u>-0-</u>	<u>-0-</u>	<u>931,612</u>
Personnel Expenses				
Salaries and wages	4,027,644	1,072,101	1,438,574	6,538,319
Employee benefits	944,544	218,513	134,782	1,297,839
Payroll taxes	375,915	80,272	122,349	578,536
Pension	259,546	37,456	59,321	356,323
Outside labor	182,539	14,515	-0-	197,054
Total Personnel Expenses	<u>5,790,188</u>	<u>1,422,857</u>	<u>1,755,026</u>	<u>8,968,071</u>
Warehouse and Building Expenses				
Depreciation	687,839	-0-	38,772	726,611
Repairs and maintenance supplies	504,296	-0-	-0-	504,296
Utilities	214,586	12,190	5,181	231,957
Trash service	98,786	-0-	-0-	98,786
Insurance	31,714	-0-	-0-	31,714
Total Warehouse and Building Expenses	<u>1,537,221</u>	<u>12,190</u>	<u>43,953</u>	<u>1,593,364</u>
Transportation Expenses				
Depreciation	319,893	-0-	-0-	319,893
Fuel	196,102	-0-	-0-	196,102
Repairs and maintenance	110,184	5,181	-0-	115,365
Rent	73,695	-0-	-0-	73,695
Insurance	70,027	-0-	-0-	70,027
Licenses, fees and tolls	52,293	135	-0-	52,428
Freight	40,668	-0-	-0-	40,668
Total Transportation Expenses	<u>862,862</u>	<u>5,316</u>	<u>-0-</u>	<u>868,178</u>

2018

Program Services	Management and General	Fundraising	Total	Increase (Decrease)
\$ 54,253,017	\$ -0-	\$ -0-	\$ 54,253,017	\$ 1,771,680
4,783,256	-0-	-0-	4,783,256	715,727
892,813	-0-	-0-	892,813	192,693
59,929,086	-0-	-0-	59,929,086	2,680,100
873,953	-0-	-0-	873,953	57,659
3,582,355	1,079,670	1,384,815	6,046,840	491,479
854,096	218,485	165,149	1,237,730	60,109
348,774	100,602	133,712	583,088	(4,552)
193,561	33,529	50,446	277,536	78,787
146,169	4,502	-0-	150,671	46,383
5,124,955	1,436,788	1,734,122	8,295,865	672,206
693,445	-0-	20,996	714,441	12,170
468,699	-0-	-0-	468,699	35,597
237,374	26,042	5,951	269,367	(37,410)
86,668	-0-	-0-	86,668	12,118
45,029	-0-	-0-	45,029	(13,315)
1,531,215	26,042	26,947	1,584,204	9,160
318,353	-0-	-0-	318,353	1,540
183,006	-0-	-0-	183,006	13,096
108,741	268	-0-	109,009	6,356
102,335	-0-	-0-	102,335	(28,640)
81,300	-0-	-0-	81,300	(11,273)
49,225	15	-0-	49,240	3,188
39,621	22	-0-	39,643	1,025
882,581	305	-0-	882,886	(14,708)

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, 2019 and 2018

	2019			
	Program Services	Manage- ment and General	Fundraising	Total
Administrative Expenses				
Professional fees	\$ 60,185	\$ 215,672	\$ 487,839	\$ 763,696
Printing	8,302	-0-	431,640	439,942
Public relations	64,383	-0-	328,796	393,179
Office and administrative expenses	98,796	47,859	186,676	333,331
Interest	31,691	296,545	-0-	328,236
Postage	2,510	963	306,255	309,728
Computer and service bureau	63,962	127,577	210	191,749
Travel and lodging	71,851	9,558	12,777	94,186
Telephone	61,735	17,833	8,290	87,858
Offsite rent and storage	59,910	-0-	-0-	59,910
Dues and subscriptions	11,763	34,772	4,389	50,924
Insurance	340	28,387	-0-	28,727
Bad debt expense	13,703	215	10,000	23,918
Depreciation	-0-	22,975	-0-	22,975
Seminars and conferences	12,532	1,773	2,633	16,938
Total Administrative Expenses	<u>561,663</u>	<u>804,129</u>	<u>1,779,505</u>	<u>3,145,297</u>
 Total expenses as presented on the Statement of Activities	 <u>\$ 72,292,732</u>	 <u>\$ 2,244,492</u>	 <u>\$ 3,578,484</u>	 <u>\$ 78,115,708</u>

2018

Program Services	Manage- ment and General	Fundraising	Total	Increase (Decrease)
\$ 20,085	\$ 229,629	\$ 595,947	\$ 845,661	\$ (81,965)
428	-0-	494,518	494,946	(55,004)
5,900	3,059	291,020	299,979	93,200
87,317	91,264	179,939	358,520	(25,189)
30,956	246,154	-0-	277,110	51,126
1,316	1,644	359,732	362,692	(52,964)
4,365	137,869	447	142,681	49,068
41,635	11,757	13,744	67,136	27,050
82,181	18,920	17,216	118,317	(30,459)
61,282	-0-	-0-	61,282	(1,372)
1,730	33,206	5,307	40,243	10,681
-0-	27,223	-0-	27,223	1,504
109	4,956	66,000	71,065	(47,147)
-0-	9,993	-0-	9,993	12,982
7,353	4,170	3,494	15,017	1,921
<u>344,657</u>	<u>819,844</u>	<u>2,027,364</u>	<u>3,191,865</u>	<u>(46,568)</u>
<u>\$ 68,686,447</u>	<u>\$ 2,282,979</u>	<u>\$ 3,788,433</u>	<u>\$ 74,757,859</u>	<u>\$ 3,357,849</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 777,387	\$ 3,141,660
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized losses (gains) on investments	(70,587)	34,583
Realized losses (gains) on sale of investments	2,123	(79,439)
Noncash contributions - investments	(176,086)	(170,476)
Provision for bad debts (bad debt recovery)	23,918	71,065
Depreciation and amortization	1,072,070	1,088,203
Loss on sale of property	7,497	-0-
Changes in operating assets and liabilities:		
Accounts receivable	(81,884)	7,373
Pledges receivable	476,416	(1,056,358)
Grants receivable	(900,971)	(870,139)
Inventories	(579,468)	(986,378)
Prepaid expenses	(81,545)	(29,929)
Accounts payable and accrued expenses	400,988	185,825
Deferred revenue	68,348	-0-
Net Cash Provided by Operating Activities	<u>938,206</u>	<u>1,335,990</u>
Cash Flows from Investing Activities		
Purchases of investments	(122,502)	(325,473)
Proceeds from sale of investments	174,137	382,445
Purchase of property	(501,897)	(1,613,569)
Net Cash Used in Investing Activities	<u>(450,262)</u>	<u>(1,556,597)</u>
Cash Flows from Financing Activities		
Payments on capital lease obligations	(258,438)	(230,237)
Payments on mortgages payable	(145,918)	(36,217)
Payments of deferred financing costs	-0-	(38,870)
Net Cash Used in Financing Activities	<u>(404,356)</u>	<u>(305,324)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	83,588	(525,931)
Cash and Cash Equivalents at Beginning of Year	<u>4,145,213</u>	<u>4,671,144</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,228,801</u>	<u>\$ 4,145,213</u>

	<u>2019</u>	<u>2018</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 325,645</u>	<u>\$ 231,697</u>
Noncash Investing and Financing Activities		
Acquisition of property	\$ 628,123	\$ 1,866,021
Less: property acquired through capital leases	<u>(126,226)</u>	<u>(252,452)</u>
Net cash paid for property	<u>\$ 501,897</u>	<u>\$ 1,613,569</u>

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and 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 United States Department of Agriculture (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.

Cash and Cash Equivalents: The Food Bank classifies all investments, except those held in the investment portfolio, 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, 2019 and 2018, 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, 2019 and 2018, since in the opinion of management all outstanding pledges receivable are collectible.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Grants Receivable and Deferred Revenue: Conditional grants are earned and recognized as revenue when the Food Bank has incurred related expenditures, which are reimbursable in accordance with specific grant requirements. Grants earned but not yet received are recorded as grants receivable on the statements of financial position. Grant proceeds received in advance are recorded as deferred revenue until they are earned.

Investments: Investments with readily determinable fair values are reported at fair value in the statements of financial position. Investments whose fair values are not readily available are recorded at cost. 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 as net investment return.

The Food Bank invests in professionally managed portfolio that may contain money market funds, mutual funds and other investments. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

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, 2019 and 2018, inventory received and distributed was valued at \$1.68 and \$1.73 per pound, respectively. Commencing on July 1, 2019 and 2018, the receipt of inventory of food donated is valued at \$1.62 and \$1.68 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. 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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs: The deferred financing costs represent costs incurred to secure debt financing (see Note 7) which are being amortized over the life of the respective debt instrument utilizing the straight-line method. Deferred financing costs as of June 30, 2019 and 2018 are as follows:

	2019	2018
Deferred financing costs	\$ 38,870	\$ 38,870
Accumulated amortization	(3,239)	(648)
	<u>\$ 35,631</u>	<u>\$ 38,222</u>

Net Assets: The Food Bank is required to report information regarding its financial position and activities according to two classes of net assets: without donor restriction and with donor restriction. Net assets, revenue, support, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a reserve for future debt service, capital acquisitions and working capital.

Net Assets With Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions that are temporary in nature are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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, 2019 and 2018.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Cost that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates of time and effort, square footage or other criteria.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018. 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, 2018 have been reclassified to conform to the financial statement presentation for the year ended June 30, 2019.

Recently Issued Accounting Pronouncements: During the year ended June 30, 2019, the Food Bank implemented the Financial Accounting Standards Board's (FASB) Accounting Standards Update (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. Accordingly, the beginning balances of the donor restricted net asset categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, *with donor restrictions*. The ASU requires additional disclosures in the areas of liquidity and requires reclassification of investment expenses which are netted in net investment return to include internal investment expenses.

The FASB issued ASU 2016-02, *Leases*, which will be effective for fiscal years beginning after December 15, 2020. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance on leases. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a related 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.

Subsequent Events: In preparing these financial statements, the Food Bank has evaluated events and transactions for the potential recognition or disclosure through November 6, 2019, the date the financial statements were available to be issued. During the period July 1, 2019 through November 6, 2019, the Food Bank did not have any other material recognizable subsequent events.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 2: Liquidity

A summary of the financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date comprise the following:

	2019	2018
Cash and cash equivalents	\$ 4,228,801	\$ 4,145,213
Accounts receivable, net	441,205	383,239
Grants receivable	1,830,196	929,225
Pledges receivable	665,905	848,267
Less: Capital campaign pledge receivables	(49,584)	(109,889)
Less: Cash held for the capital campaign	(657,313)	(1,015,494)
Less: Cash held for capital projects	(51,588)	(15,362)
Financial Assets Available for General Expenditure	<u>\$ 6,407,622</u>	<u>\$ 5,165,199</u>

The Food Bank manages its liquidity following two guiding principles: operating within a prudent range of financial soundness and stability, and maintaining adequate liquid assets to fund near-term operating needs. In the event of an unanticipated liquidity need, the Food Bank also could draw upon a \$1,750,000 available operating line of credit (as further discussed in Note 6).

The governing board of the Food Bank has designated investments as a reserve for specified future needs as discussed in Note 8. Even though there is no intent of the governing board to remove the designation, they could make these amounts available as necessary. The amount designated and not included within the liquidity calculation as of June 30, 2019 and 2018 were \$3,002,433 and \$2,809,518, respectively.

Note 3: 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.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 3: 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:

Cash and Cash Equivalents (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, 2019 and 2018:

	2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents held for investment	\$ 15,984	\$ 15,984	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,342,515	1,342,515	-0-	-0-
Bond funds	1,127,457	1,127,457	-0-	-0-
International funds	516,477	516,477	-0-	-0-
Total Investments	\$ 3,002,433	\$ 3,002,433	\$ -0-	\$ -0-
	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-
Total Investments	\$ 2,809,518	\$ 2,809,518	\$ -0-	\$ -0-

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 3: Investments and Fair Value Measurement (Continued)

Investment income, net, as reported on the statements of activities for the years ended June 30, 2019 and 2018 is comprised of the following:

	2019	2018
Interest and dividend income	\$ 148,716	\$ 141,242
Net unrealized gains (losses)	70,587	(34,583)
Net realized gains (Losses)	(2,123)	79,439
Investment fees	(13,230)	(12,758)
Net Investment Return	\$ 203,950	\$ 173,340

Note 4: Pledges Receivable

Pledges receivable as of June 30, 2019 and 2018 consisted of the following unconditional promises to give:

	2019	2018
Receivable in less than one year	\$ 665,905	\$ 848,267
Receivable in one to five years	416,610	717,674
Receivable greater than five years	-0-	10,000
Total pledge receivable	1,082,515	1,575,941
Present value discount (3%)	(17,707)	(34,717)
Net pledges receivable	\$ 1,064,808	\$ 1,541,224
Current portion	\$ 665,905	\$ 848,267
Long term portion	398,903	692,957
	\$ 1,064,808	\$ 1,541,224

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 5: Inventories

Inventories of donated and purchased food as of June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Baltimore:		
Donated	\$ 1,658,913	\$ 1,153,190
TEFAP	748,237	800,888
Out on consignment (at cost)	4,895	5,453
Purchased (at cost)	405,182	361,371
	<u>2,817,227</u>	<u>2,320,902</u>
Salisbury:		
Donated	120,501	50,338
TEFAP	10,211	7,244
Purchased (at cost)	50,455	40,442
	<u>181,167</u>	<u>98,024</u>
Total Inventories	<u>\$ 2,998,394</u>	<u>\$ 2,418,926</u>

Note 6: 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, 2019 and 2018, the interest rate was 4.03% and 3.68%, respectively. The LOC matures on February 28, 2020 and requires the same financial covenants as the mortgage payable (see Note 7). As of June 30, 2019 and 2018, there were no outstanding borrowings on the LOC.

Note 7: Mortgage 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 note has a fixed interest rate of 4.49%. 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.

Mortgage payable as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Mortgage Payable	\$ 6,377,865	\$ 6,523,782
Less unamortized deferred financing costs	<u>(35,631)</u>	<u>(38,222)</u>
Mortgage Payable, Net	<u>\$ 6,342,234</u>	<u>\$ 6,485,560</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 7: Mortgage 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
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
2024	183,104	(2,591)	180,513
Thereafter	5,540,147	(22,676)	5,517,471
Total	<u>\$ 6,377,865</u>	<u>\$ (35,631)</u>	<u>\$ 6,342,234</u>

Note 8: Net Assets

Net Assets without Donor Restrictions:

Net assets without donor restrictions for general operations - consists of the resources and obligations related to the daily operations of the Food Bank.

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, 2019 and 2018. The balance of the board designated fund was \$3,002,433 and \$2,809,518 as of June 30, 2019 and 2018, respectively.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
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Note 8: Net Assets (Continued)

Net Assets with Donor Restrictions:

The Food Bank has several donor restricted funds, which may be fully expended but only for the purpose established by the respective donors. Net assets with donor restrictions were available for the following purposes as of June 30, 2019 and 2018:

	Year Ended June 30, 2019			
	Balance at June 30, 2018	Contributions	Released From Restrictions	Balance at June 30, 2019
Food distribution	\$ 1,623,878	\$ 1,563,188	\$ (1,835,711)	\$ 1,351,355
Capital campaign	1,125,383	7,979	(426,465)	706,897
Youth programs	358,924	1,052,960	(1,129,082)	282,802
Technology	250,000	50,000	(146,333)	153,667
Capital projects	15,362	104,243	(68,047)	51,558
Network capacity	7,500	-0-	(7,500)	-0-
	<u>\$ 3,381,047</u>	<u>\$ 2,778,370</u>	<u>\$ (3,613,138)</u>	<u>\$ 2,546,279</u>
	Year Ended June 30, 2018			
	Balance at June 30, 2017	Contributions	Released From Restrictions	Balance at June 30, 2018
Food distribution	\$ 474,406	\$ 2,925,554	\$ (1,776,082)	\$ 1,623,878
Capital campaign	1,782,996	62,500	(720,113)	1,125,383
Youth programs	316,600	1,105,818	(1,063,494)	358,924
Technology	-0-	250,000	-0-	250,000
Capital projects	100,000	83,500	(168,138)	15,362
Network capacity	-0-	10,000	(2,500)	7,500
	<u>\$ 2,674,002</u>	<u>\$ 4,437,372</u>	<u>\$ (3,730,327)</u>	<u>\$ 3,381,047</u>

Note 9: 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 \$1,785,157 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, 2019 and 2018 was \$900,589 and \$718,360, respectively.

THE MARYLAND FOOD BANK, INC.
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Note 9: Commitments (Continued)

As of June 30, 2019, future minimum lease payments under the capital lease obligations, summarized by year, are as follows:

Year Ending June 30:	
2020	\$ 277,467
2021	265,224
2022	218,223
2023	116,634
2024	62,064
Thereafter	<u>30,419</u>
Total minimum lease payments remaining	970,031
Less: Amount representing interest (.96% to 3.97%)	<u>(67,375)</u>
Present value of future minimum lease payments	902,656
Less current maturities of capital lease obligations	<u>(249,688)</u>
Long term portion of capital lease obligations	<u><u>\$ 652,968</u></u>

Note 10: In-Kind Transactions

During the years ended June 30, 2019 and 2018, the Food Bank received and/or facilitated donated food valued at \$56,550,963 and \$55,266,295, 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, 2019 and 2018 were \$356,323 and \$277,537, respectively.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
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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, 2019 and 2018 was \$382,644 and \$299,053, respectively, which has been invested in a separate income-bearing account, that have been included in other assets, restricted 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, 2019 and 2018 was \$26,598 and \$24,948, respectively, which has been invested in a separate income-bearing account, that have been included in other assets, restricted on the statements of financial position.

Note 13: 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 7.

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 \$963,000 (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.

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.

