

THE MARYLAND FOOD BANK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 3, 2020

THE MARYLAND FOOD BANK, INC.
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 26,358,269	\$ 4,228,801
Investments	3,091,562	3,002,433
Accounts receivable	897,200	441,205
Grants receivable	2,240,506	1,830,196
Pledges receivable, current	801,870	665,905
Inventories	6,215,930	2,998,394
Prepaid expenses	124,543	194,883
Total Current Assets	<u>39,729,880</u>	<u>13,361,817</u>
Property		
Land, building, and improvements	17,672,588	17,594,043
Automotive equipment	3,189,938	2,851,680
Furniture and fixtures	1,994,194	1,823,097
Warehouse equipment	1,894,003	1,840,886
Construction in progress	72,452	7,477
Total Cost	<u>24,823,175</u>	<u>24,117,183</u>
Less: Accumulated depreciation	<u>10,304,481</u>	<u>9,208,113</u>
Net Property	<u>14,518,694</u>	<u>14,909,070</u>
Other Assets		
Other assets, restricted	351,270	409,242
Pledge receivable, noncurrent	168,530	398,903
Total Other Assets	<u>519,800</u>	<u>808,145</u>
Total Assets	<u><u>\$ 54,768,374</u></u>	<u><u>\$ 29,079,032</u></u>

	<u>2020</u>	<u>2019</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,581,492	\$ 1,746,436
Deferred revenue	5,086,818	68,348
Current maturities of capital lease obligations	265,701	249,688
Current maturities of mortgage payable	162,235	150,083
Total Current Liabilities	<u>9,096,246</u>	<u>2,214,555</u>
Non-Current Liabilities		
Mortgage payable, net of current maturities	6,011,895	6,192,151
Capital lease obligations, net of current maturities	536,855	652,968
Deferred compensation payable	351,270	409,242
Paycheck protection program loan	1,526,987	-0-
Total Non-Current Liabilities	<u>8,427,007</u>	<u>7,254,361</u>
Total Liabilities	<u>17,523,253</u>	<u>9,468,916</u>
Commitments and Contingencies (Notes 10, 12, 13 and 15)		
Net Assets		
Without donor restrictions		
General operations	32,958,771	14,061,404
Board designated	3,091,562	3,002,433
Total Without Donor Restrictions	<u>36,050,333</u>	<u>17,063,837</u>
With donor restrictions	1,194,788	2,546,279
Total Net Assets	<u>37,245,121</u>	<u>19,610,116</u>
Total Liabilities and Net Assets	<u>\$ 54,768,374</u>	<u>\$ 29,079,032</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Support			
Grants and contributions - in-kind	\$ 55,559,314	\$ -0-	\$ 55,559,314
Grants and contributions - other	34,076,366	2,955,054	37,031,420
Grants for meals	1,499,280	-0-	1,499,280
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Total	91,134,960	2,955,054	94,090,014
	<hr/>		
Revenue			
Sales to agencies, net	3,807,747	-0-	3,807,747
Special events, net of direct benefits to donors	740,450	220,000	960,450
Program fees	1,383,561	-0-	1,383,561
Shared maintenance	316,426	-0-	316,426
Delivery income	6,800	-0-	6,800
Net investment return	88,604	-0-	88,604
Gain (loss) on disposal of property	2,191	-0-	2,191
Other revenue	23,539	-0-	23,539
Total	6,369,318	220,000	6,589,318
	<hr/>		
Net Assets Released from Restrictions			
Satisfaction of program restrictions	4,526,545	(4,526,545)	-0-
	<hr/>		
Total Support and Revenue	102,030,823	(1,351,491)	100,679,332
	<hr/>		
Expenses			
Program services	76,732,248	-0-	76,732,248
Supporting services			
Management and general	2,288,681	-0-	2,288,681
Fundraising	4,023,398	-0-	4,023,398
Total Supporting Services	6,312,079	-0-	6,312,079
	<hr/>		
Total Expenses	83,044,327	-0-	83,044,327
	<hr/>		
Change in Net Assets	18,986,496	(1,351,491)	17,635,005
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Net Assets at Beginning of Year	17,063,837	2,546,279	19,610,116
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Net Assets at End of Year	\$ 36,050,333	\$ 1,194,788	\$ 37,245,121
	<hr/>		

2019

Without Donor Restrictions	With Donor Restrictions	Total	Increase (Decrease)
\$ 56,550,962	\$ -0-	\$ 56,550,962	\$ (991,648)
13,591,971	2,778,370	16,370,341	20,661,079
1,209,884	-0-	1,209,884	289,396
71,352,817	2,778,370	74,131,187	19,958,827
2,412,987	-0-	2,412,987	1,394,760
-0-	-0-	-0-	960,450
1,638,711	-0-	1,638,711	(255,150)
469,214	-0-	469,214	(152,788)
14,300	-0-	14,300	(7,500)
203,950	-0-	203,950	(115,346)
(7,497)	-0-	(7,497)	9,688
17,390	-0-	17,390	6,149
4,749,055	-0-	4,749,055	1,840,263
3,613,138	(3,613,138)	-0-	-0-
79,715,010	(834,768)	78,880,242	21,799,090
72,279,879	-0-	72,279,879	4,452,369
2,244,492	-0-	2,244,492	44,189
3,578,484	-0-	3,578,484	444,914
5,822,976	-0-	5,822,976	489,103
78,102,855	-0-	78,102,855	4,941,472
1,612,155	(834,768)	777,387	16,857,618
15,451,682	3,381,047	18,832,729	777,387
\$ 17,063,837	\$ 2,546,279	\$ 19,610,116	\$ 17,635,005

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

THE MARYLAND FOOD BANK, INC.
Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

	2020			
	Program Services	Manage- ment and General	Fundraising	Total
Program Food Costs				
Value of donated goods distributed	\$ 54,984,170	\$ -0-	\$ -0-	\$ 54,984,170
Cost of purchased goods	10,444,951	-0-	-0-	10,444,951
Processing and other costs	158,418	-0-	-0-	158,418
Total Program Food Costs	<u>65,587,539</u>	<u>-0-</u>	<u>-0-</u>	<u>65,587,539</u>
Direct Service Grants	<u>1,341,453</u>	<u>-0-</u>	<u>-0-</u>	<u>1,341,453</u>
Personnel Expenses				
Salaries and wages	4,851,155	1,181,531	1,334,648	7,367,334
Employee benefits and taxes	1,567,881	359,640	285,774	2,213,295
Outside labor	227,843	10,324	-0-	238,167
Total Personnel Expenses	<u>6,646,879</u>	<u>1,551,495</u>	<u>1,620,422</u>	<u>9,818,796</u>
Warehouse and Building Expenses				
Depreciation	693,242	-0-	61,800	755,042
Repairs and maintenance supplies	678,373	-0-	859	679,232
Utilities	229,493	6,970	5,324	241,787
Trash service	114,659	-0-	-0-	114,659
Offsite rent and storage	60,178	-0-	-0-	60,178
Insurance	36,044	-0-	-0-	36,044
Total Warehouse and Building Expenses	<u>1,811,989</u>	<u>6,970</u>	<u>67,983</u>	<u>1,886,942</u>
Transportation Expenses				
Depreciation	315,585	-0-	-0-	315,585
Fuel	176,746	49	-0-	176,795
Rent	116,872	-0-	-0-	116,872
Repairs and maintenance	97,513	6,143	-0-	103,656
Insurance	74,656	399	-0-	75,055
Licenses, fees and tolls	38,972	18	-0-	38,990
Freight	33,954	-0-	-0-	33,954
Total Transportation Expenses	<u>854,298</u>	<u>6,609</u>	<u>-0-</u>	<u>860,907</u>

2019

Program Services	Manage- ment and General	Fundraising	Total	Increase (Decrease)
\$ 56,024,697	\$ -0-	\$ -0-	\$ 56,024,697	\$ (1,040,527)
6,379,816	-0-	-0-	6,379,816	4,065,135
204,673	-0-	-0-	204,673	(46,255)
62,609,186	-0-	-0-	62,609,186	2,978,353
958,075	-0-	-0-	958,075	383,378
4,027,644	1,072,101	1,438,574	6,538,319	829,015
1,553,543	336,241	316,452	2,206,236	7,059
166,149	14,515	-0-	180,664	57,503
5,747,336	1,422,857	1,755,026	8,925,219	893,577
687,839	-0-	38,772	726,611	28,431
491,443	-0-	-0-	491,443	187,789
214,586	12,190	5,181	231,957	9,830
98,786	-0-	-0-	98,786	15,873
59,910	-0-	-0-	59,910	268
31,714	-0-	-0-	31,714	4,330
1,584,278	12,190	43,953	1,640,421	246,521
319,893	-0-	-0-	319,893	(4,308)
196,102	-0-	-0-	196,102	(19,307)
73,695	-0-	-0-	73,695	43,177
110,184	5,181	-0-	115,365	(11,709)
70,027	-0-	-0-	70,027	5,028
43,168	135	-0-	43,303	(4,313)
40,668	-0-	-0-	40,668	(6,714)
853,737	5,316	-0-	859,053	1,854

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, 2020 and 2019

	2020			
	Program Services	Manage- ment and General	Fundraising	Total
Administrative Expenses				
Professional fees	\$ 109,342	\$ 149,329	\$ 616,769	\$ 875,440
Public relations	30,389	307	516,575	547,271
Printing	3,523	18	528,762	532,303
Office and administrative expenses	126,480	21,179	341,863	489,522
Postage	2,498	1,105	423,623	427,226
Interest	29,484	283,491	-0-	312,975
Computer and service bureau	33,636	137,933	68,018	239,587
Telephone	77,950	25,628	7,568	111,146
Travel and lodging	55,743	4,051	8,780	68,574
Dues and subscriptions	9,776	26,099	11,049	46,924
Insurance	502	40,699	-0-	41,201
Bad debt expense	803	-0-	-0-	803
Depreciation	-0-	32,881	-0-	32,881
Seminars and conferences	9,964	887	6,852	17,703
Total Administrative Expenses	<u>490,090</u>	<u>723,607</u>	<u>2,529,859</u>	<u>3,743,556</u>
Total Expenses	76,732,248	2,288,681	4,218,264	83,239,193
Less Cost of direct benefits to donors	-0-	-0-	(194,866)	(194,866)
Total Expenses Reported on the Statement of Activities	<u>\$ 76,732,248</u>	<u>\$ 2,288,681</u>	<u>\$ 4,023,398</u>	<u>\$ 83,044,327</u>

2019

Program Services	Management and General	Fundraising	Total	Increase (Decrease)
\$ 76,575	\$ 215,672	\$ 487,839	\$ 780,086	\$ 95,354
64,383	-0-	328,796	393,179	154,092
8,302	-0-	431,640	439,942	92,361
98,796	25,304	131,104	255,204	234,318
2,510	963	306,255	309,728	117,498
31,691	296,545	-0-	328,236	(15,261)
73,086	150,132	55,782	279,000	(39,413)
61,735	17,833	8,290	87,858	23,288
71,851	9,558	12,777	94,186	(25,612)
11,763	34,772	4,389	50,924	(4,000)
340	28,387	-0-	28,727	12,474
13,703	215	10,000	23,918	(23,115)
-0-	22,975	-0-	22,975	9,906
12,532	1,773	2,633	16,938	765
<u>527,267</u>	<u>804,129</u>	<u>1,779,505</u>	<u>3,110,901</u>	<u>632,655</u>
72,279,879	2,244,492	3,578,484	78,102,855	5,136,338
-0-	-0-	-0-	-0-	(194,866)
<u>\$ 72,279,879</u>	<u>\$ 2,244,492</u>	<u>\$ 3,578,484</u>	<u>\$ 78,102,855</u>	<u>\$ 4,941,472</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 17,635,005	\$ 777,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized losses (gains) on investments	122,203	(70,587)
Realized losses (gains) on sale of investments	(153,678)	2,123
Noncash contributions - investments	(204,102)	(176,086)
Provision for bad debts	803	23,918
Depreciation and amortization	1,106,597	1,072,070
Loss (gains) on sale of property	(2,191)	7,497
Changes in operating assets and liabilities:		
Accounts receivable	(456,798)	(81,884)
Grants receivable	(410,310)	(900,971)
Pledges receivable	94,408	476,416
Inventories	(3,217,536)	(579,468)
Prepaid expenses	70,340	(81,545)
Accounts payable and accrued expenses	1,835,056	400,988
Deferred revenue	5,018,470	68,348
Net Cash Provided by Operating Activities	<u>21,438,267</u>	<u>938,206</u>
Cash Flows from Investing Activities		
Purchases of investments	(6,390)	(122,502)
Proceeds from sale of investments	152,838	174,137
Proceeds from sale of property	9,000	-0-
Purchase of property	(570,352)	(501,897)
Net Cash Used in Investing Activities	<u>(414,904)</u>	<u>(450,262)</u>
Cash Flows from Financing Activities		
Payments on capital lease obligations	(249,688)	(258,438)
Payments on mortgages payable	(155,469)	(145,918)
Payments of deferred financing costs	(15,725)	-0-
Proceeds from Paycheck Protection Program loan	1,526,987	-0-
Net Cash Provided by (Used in) Financing Activities	<u>1,106,105</u>	<u>(404,356)</u>
Net Increase in Cash and Cash Equivalents	22,129,468	83,588
Cash and Cash Equivalents at Beginning of Year	<u>4,228,801</u>	<u>4,145,213</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 26,358,269</u></u>	<u><u>\$ 4,228,801</u></u>

	<u>2020</u>	<u>2019</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 309,886</u>	<u>\$ 325,645</u>
Noncash Investing and Financing Activities		
Acquisition of property	\$ 719,940	\$ 628,123
Less: property acquired through capital leases	<u>(149,588)</u>	<u>(126,226)</u>
Net cash paid for property	<u>\$ 570,352</u>	<u>\$ 501,897</u>

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, since in the opinion of management all outstanding pledges receivable are collectible.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2020 and 2019

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.

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 net realizable value. 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, 2020 and 2019, inventory received and distributed was valued at \$1.62 and \$1.68 per pound, respectively. Commencing on July 1, 2020 and 2019, the receipt of inventory of food donated is valued at \$1.74 and \$1.62 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, 2020 and 2019

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, 2020 and 2019 are as follows:

	2020	2019
Deferred financing costs	\$ 54,595	\$ 38,870
Accumulated amortization	(6,328)	(3,239)
	<u>\$ 48,267</u>	<u>\$ 35,631</u>

Net Assets: 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.

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) issues Accounting Standards Update (ASU) 2014-19, *Revenue from Contracts with Customers (Topic 606)* and all related amendments, which serves to supersede most existing revenue recognition guidance. This standard is commonly referred to as Accounting Standards Codification (ASC) 606. ASC 606 is effective for years beginning January 1, 2019. Management has reviewed this ASC and has determined that it will have no impact on the Food Banks' financial statements since the Food Bank does not recognize revenue from contracts.

The Food Bank derives revenue primarily from grants, contributions, sales to agencies, program fees, delivery income and net investment return. Sales to agencies, program fees, delivery income and Investment income are recognized as revenue when earned. Unconditional grants and contributions are recognized in the year the grants and contributions are pledged and/or received. Conditional grants are earned and recognized as revenue in proportion to the related expenditures incurred or when all conditions of the grant have been substantially met. Grants and contributions earned but not yet received are recorded as pledges or grants receivable. Grant proceeds received in advance and not yet earned are recorded as deferred revenue.

Contributions: Contributions received are recorded without donor restrictions or with donor restriction support depending on the existence and/or nature of any donor restrictions.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2020 and 2019

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

Recognition of Donor Restrictions: All donor-restricted support is reported as an increase in net assets with donor restrictions. Upon the expiration of a temporary restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities.

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, 2020 and 2019.

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.

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, 2020 and 2019. 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, 2019 have been reclassified to conform to the financial statement presentation for the year ended June 30, 2020.

Recently Issued Accounting Pronouncements: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* which was effective for fiscal years beginning after December 15, 2018. The new guidance clarifies and improves accounting guidance for contributions received and contributions made. The amendments in the ASU provide specific criteria to 1) evaluate whether certain transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and 2) determine whether a contribution is conditional. The Food Bank adopted the ASU 2018-08 effective July 1, 2019 and determined there was no cumulative effect on the opening balance of net assets as a result of adopting this standard.

THE MARYLAND FOOD BANK, INC.
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Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

The FASB issued ASU 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2021. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance for 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 exercise and option to extend the lease or not to exercise an option to terminate the lease. The assets 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 this standard and will assess the future impact of leases on the financial statements.

Subsequent Events: In preparing these financial statements, the Food Bank has evaluated events and transactions for the potential recognition or disclosure through November 3, 2020, the date the financial statements were available to be issued. During the period July 1, 2020 through November 3, 2020, the Food Bank did not have any other material recognizable subsequent events.

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:

	2020	2019
Cash and cash equivalents	\$ 26,358,269	\$ 4,228,801
Accounts receivable, net	897,200	441,205
Grants receivable	2,240,506	1,830,196
Pledges receivable	801,870	665,905
Less: Capital campaign pledge receivables	(15,000)	(49,584)
Less: Cash held for the capital campaign	(640,193)	(657,313)
Less: Cash held for capital projects	-0-	(51,588)
Financial Assets Available for General Expenditure	<u>\$ 29,642,652</u>	<u>\$ 6,407,622</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 9. Even though there is no intent of the governing board to remove the designation, they could make these amounts available, as necessary. The amounts designated and not included within the liquidity calculation as of June 30, 2020 and 2019 were \$3,091,562 and \$3,002,433, respectively.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
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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.

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, 2020 and 2019:

	2020			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents held for investment	\$ 122,372	\$ 122,372	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,246,179	1,246,179	-0-	-0-
Fixed Income funds	1,346,290	1,346,290	-0-	-0-
International funds	376,721	376,721	-0-	-0-
Total Investments	\$ 3,091,562	\$ 3,091,562	\$ -0-	\$ -0-

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2020 and 2019

Note 3: Investments and Fair Value Measurement (Continued)

	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-
Fixed Income 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-

Net investment return, as reported on the statements of activities for the years ended June 30, 2020 and 2019, is comprised of the following:

	2020	2019
Interest and dividend income	\$ 72,122	\$ 148,716
Net unrealized gains (losses)	(122,203)	70,587
Net realized gains (losses)	153,678	(2,123)
Investment fees	(14,993)	(13,230)
Net Investment Return	\$ 88,604	\$ 203,950

Note 4: Pledges Receivable

Pledges receivable as of June 30, 2020 and 2019 consisted of the following unconditional promises to give:

	2020	2019
Receivable in less than one year	\$ 801,870	\$ 665,905
Receivable in one to five years	169,056	416,610
Total pledge receivable	970,926	1,082,515
Present value discount (3%)	(526)	(17,707)
Net pledges receivable	\$ 970,400	\$ 1,064,808
Current portion	\$ 801,870	\$ 665,905
Long term portion	168,530	398,903
	\$ 970,400	\$ 1,064,808

THE MARYLAND FOOD BANK, INC.
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Note 5: Inventories

Inventories of donated and purchased food as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Baltimore:		
Donated	\$ 1,767,693	\$ 1,658,913
TEFAP	1,104,894	748,237
Out on consignment (at cost)	4,570	4,895
Purchased (at cost)	2,959,520	405,182
	5,836,677	2,817,227
Salisbury:		
Donated	154,379	120,501
TEFAP	67,274	10,211
Purchased (at cost)	145,879	50,455
	367,532	181,167
Hagerstown:		
Donated	11,721	-0-
	11,721	-
Total Inventories	\$ 6,215,930	\$ 2,998,394

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. Prior to February 2020, borrowings under the LOC were subject to interest at prime rate plus 1.5%, payable monthly. Effective February 2020, the annual interest rate changed to the greater of 1.6% or the Prime Rate minus 1.5%, payable monthly. As of June 30, 2020 and 2019, the interest rate was 1.75% and 4.03%, respectively. The LOC matures on February 28, 2022 and requires the same financial covenants as the mortgage payable (see Note 7). As of June 30, 2020 and 2019, there were no outstanding borrowings on the LOC.

Note 7: Mortgage Payable

The Food Bank has a \$6,560,000 promissory note with Sandy Spring. The note is secured by a deed of trust on the Food Bank's facility and personal property located in Baltimore County, Maryland and required compliance with certain financial covenants as described in the note agreement. The note had a fixed interest rate of 4.49%. Commencing in April 2018, monthly principal and interest payments of \$36,658 were 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.

The promissory note was amended in February 2020. The amended note has a fixed interest rate of 4.19% and requires monthly principal and interest payments of \$35,597 until the note matures on April 1, 2033, with a balloon payment of \$3,475,573. The amended agreement also removed the financial covenants but requires the Food Bank to maintain a principal balance of zero dollars on the LOC for at least thirty consecutive days.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2020 and 2019

Note 7: Mortgage Payable (Continued)

Mortgage payable as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Mortgage Payable	\$ 6,222,397	\$ 6,377,865
Less: Unamortized deferred financing costs	<u>(48,267)</u>	<u>(35,631)</u>
Mortgage Payable, Net	<u>\$ 6,174,130</u>	<u>\$ 6,342,234</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:	<u>Mortgage Payable</u>	<u>Deferred Financing Costs</u>	<u>Total</u>
2021	\$ 166,021	\$ (3,786)	\$ 162,235
2022	173,212	(3,786)	169,426
2023	180,716	(3,786)	176,930
2024	187,884	(3,786)	184,098
2025	196,683	(3,786)	192,897
Thereafter	<u>5,317,881</u>	<u>(29,337)</u>	<u>5,288,544</u>
Total	<u>\$ 6,222,397</u>	<u>\$ (48,267)</u>	<u>\$ 6,174,130</u>

Interest expense incurred on the mortgage payable was \$283,491 and \$296,545 for the years ended June 30, 2020 and 2019, respectively.

Note 8: Paycheck Protection Program Loan

The Food Bank applied for and received funds in the amount of \$1,526,987 under the Paycheck Protection Program (PPP) which was created as a result of the coronavirus pandemic. The proceeds are considered a forgivable loan, assuming certain qualified expenses, primarily payroll related expenses, are incurred during either the eight-week or 24-week periods, commencing on the date of the loan agreement (April 28, 2020). Any portion of this loan that does not qualify for forgiveness is subject to an interest rate of 1%. The original loan document required monthly principal installments plus interest over an eighteen-month period commencing on November 28, 2020 with a maturity date of April 28, 2022. However, the repayment of principal period has been extended until 10 months after the end of the eight-week or 24-week period. Even though this has been presented as a debt obligation as of June 30, 2020 on the statements of financial position, it is the Food Bank's position that this entire PPP loan will qualify for forgiveness.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2020 and 2019

Note 9: 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, 2020 and 2019. The balance of the board designated fund was \$3,091,562 and \$3,002,433 as of June 30, 2020 and 2019, respectively.

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, 2020 and 2019:

	Year Ended June 30, 2020			
	Balance at June 30, 2019	Contributions	Released From Restrictions	Balance at June 30, 2020
Food distribution	\$ 1,351,355	\$ 1,422,119	\$ (2,542,946)	\$ 230,528
Capital campaign	706,897	310,775	(362,479)	655,193
Technology	153,667	138,000	(121,704)	169,963
Youth programs	282,802	1,140,353	(1,284,051)	139,104
Capital projects	51,558	163,807	(215,365)	-0-
	<u>\$ 2,546,279</u>	<u>\$ 3,175,054</u>	<u>\$ (4,526,545)</u>	<u>\$ 1,194,788</u>
	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>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
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Note 10: 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.

Warehouse Lease Obligations: The Food Bank has leases agreements to lease three offsite warehouse spaces that expire between June 30, 2021 and August 31, 2022. In addition to the monthly rent for these warehouses, one of the leases also requires as additional rent, the Food Bank's proportional share of operating expenses of the landlord, as defined in the lease agreement. Future minimum annual rental payments due under these leases, summarized by year, are as follows:

Year Ending June 30:	
2021	\$ 136,952
2022	112,503
2023	<u>18,750</u>
	<u>\$ 268,205</u>

Capital Lease Obligations: The Food Bank leases sixteen trucks having a combined cost of \$2,014,900 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, 2020 and 2019 was \$1,237,519 and \$900,589, respectively.

As of June 30, 2020, future minimum lease payments under the capital lease obligations, summarized by year are as follows:

Year Ending June 30:	
2021	\$ 288,012
2022	241,011
2023	139,421
2024	84,852
2025	53,208
Thereafter	<u>45,575</u>
Total minimum lease payments remaining	852,079
Less: Amount representing interest (1.835% to 3.966%)	<u>(49,523)</u>
Present value of future minimum lease payments	802,556
Less current maturities of capital lease obligations	<u>(265,701)</u>
Long term portion of capital lease obligations	<u>\$ 536,855</u>

Interest expense incurred on the capital lease obligations was \$29,484 and \$31,691 for the years ended June 30, 2020 and 2019, respectively.

Construction Contract: During the year ended June 30, 2020, the Food Bank entered into an architectural design contract related to the Food Works program areas expansion, including the kitchen expansion and office relocation. The total amount of this contract is \$258,623, of which \$35,725 has been incurred through June 30, 2020.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
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Note 11: In-Kind Transactions

During the years ended June 30, 2020 and 2019, the Food Bank received and/or facilitated donated food valued at \$55,559,314 and \$56,550,963, 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 12: 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, 2020 and 2019 were \$377,138 and \$356,323, respectively.

Note 13: 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, 2020 and 2019 was \$323,094 and \$382,644, 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, 2020 and 2019 was \$28,176 and \$26,598, 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 MARYLAND FOOD BANK, INC.
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Note 14: Conditional Grants

The Food Bank has received conditional grants from various entities in the amount of \$6,720,442, which can only be earned by incurring certain qualifying expenses under the respective grant programs. As of June 30, 2020, the Food Bank has earned \$1,633,624 of these grants which have been recognized as revenue during the year ended June 30, 2020. The outstanding balance of these conditional grants was \$5,086,818 as of June 30, 2020, which will be recognized as revenue when the conditions of the grant have been met.

Note 15: Other Matters

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.

Investment Risk: 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.

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 currently \$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, with certain exceptions as described in the plan document. 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.

National Health Emergency: In March 2020, the President of the United States declared a national emergency due to a viral pandemic. The declaration of the national emergency and similar declarations made by various states, and the outbreak of the virus itself, will have far reaching social, economic and financial impacts on the country going forward. At this time, the long term impact on the operations and the financial status of the Food Bank cannot be determined.

