



THE MARYLAND FOOD BANK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

	<u>Page Numbers</u>
Independent Auditor's Report.....	1
Statements of Financial Position	2-3
Statements of Activities	4-5
Statements of Functional Expenses.....	6-9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-22

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

Independent Auditor's Report

We have audited the accompanying statements of financial position of The Maryland Food Bank, Inc., a nonprofit corporation, as of June 30, 2015 and 2014, 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.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
October 29, 2015

THE MARYLAND FOOD BANK, INC.
Statements of Financial Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,907,311	\$ 1,306,372
Investments	3,128,825	3,043,971
Accounts receivable, net	596,214	525,607
Pledges receivable, current	1,210,675	757,452
Inventories	1,569,035	2,231,644
Prepaid expenses	159,674	44,920
Total Current Assets	<u>10,571,734</u>	<u>7,909,966</u>
Property		
Land, building, and improvements	16,177,921	16,072,642
Automotive equipment	2,327,561	1,803,399
Furniture and fixtures	1,377,873	1,314,703
Warehouse equipment	1,215,651	1,155,385
Construction in progress	212,835	125,502
Total Cost	<u>21,311,841</u>	<u>20,471,631</u>
Less: Accumulated depreciation	5,867,799	4,849,313
Net Property	<u>15,444,042</u>	<u>15,622,318</u>
Other Assets		
Cash and cash equivalents, restricted	20,000	-0-
Assets held in trust	196,950	202,017
Deferred financing costs, net of amortization	76,254	111,422
Pledge receivable, noncurrent	630,960	66,667
Total Other Assets	<u>924,164</u>	<u>380,106</u>
Total Assets	<u>\$ 26,939,940</u>	<u>\$ 23,912,390</u>

	<u>2015</u>	<u>2014</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,589,301	\$ 1,174,187
Deferred revenue	20,000	-0-
Short-term bank borrowings (line of credit)	-0-	228,065
Current maturities of long-term debt	144,990	227,252
Total Current Liabilities	<u>1,754,291</u>	<u>1,629,504</u>
Non-Current Liabilities		
Long-term debt, net of current maturities	7,149,111	2,248,367
Deferred compensation payable	216,950	202,017
Total Non-Current Liabilities	<u>7,366,061</u>	<u>2,450,384</u>
Total Liabilities	<u>9,120,352</u>	<u>4,079,888</u>
Commitments (Notes 7, 11, 12 and 14)		
Net Assets		
Unrestricted		
General operations	11,842,791	14,603,503
Board designated	3,128,825	3,043,971
Total Unrestricted	<u>14,971,616</u>	<u>17,647,474</u>
Temporarily restricted	2,847,972	2,185,028
Total Net Assets	<u>17,819,588</u>	<u>19,832,502</u>
Total Liabilities and Net Assets	<u>\$ 26,939,940</u>	<u>\$ 23,912,390</u>

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

THE MARYLAND FOOD BANK, INC.
Statements of Activities
Years Ended June 30, 2015 and 2014

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Support			
Contributions - in kind	\$ 62,435,173	\$ -0-	\$ 62,435,173
Contributions - other	9,136,658	6,708,864	15,845,522
Total	<u>71,571,831</u>	<u>6,708,864</u>	<u>78,280,695</u>
Revenue			
Sales to agencies, net of returns	1,867,754	-0-	1,867,754
Contracted meals	1,260,036	-0-	1,260,036
Program fees	798,611	-0-	798,611
Shared maintenance	622,918	-0-	622,918
Investment income, net	79,810	-0-	79,810
Delivery income	58,745	-0-	58,745
Other revenue	84,122	-0-	84,122
Total	<u>4,771,996</u>	<u>-0-</u>	<u>4,771,996</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	6,045,920	(6,045,920)	-0-
Total Support and Revenue	<u>82,389,747</u>	<u>662,944</u>	<u>83,052,691</u>
Expenses			
Program services			
Program food costs	69,005,830	-0-	69,005,830
Direct service grants	1,017,095	-0-	1,017,095
Personnel	5,540,238	-0-	5,540,238
Warehouse and building	1,580,561	-0-	1,580,561
Transportation	1,050,536	-0-	1,050,536
Administrative	433,765	-0-	433,765
Total Program Services	<u>78,628,025</u>	<u>-0-</u>	<u>78,628,025</u>
Supporting services			
Management and general	2,590,406	-0-	2,590,406
Fundraising	3,847,174	-0-	3,847,174
Total Supporting Services	<u>6,437,580</u>	<u>-0-</u>	<u>6,437,580</u>
Total Expenses	<u>85,065,605</u>	<u>-0-</u>	<u>85,065,605</u>
Change in Net Assets	(2,675,858)	662,944	(2,012,914)
Net Assets at Beginning of Year	<u>17,647,474</u>	<u>2,185,028</u>	<u>19,832,502</u>
Net Assets at End of Year	<u>\$ 14,971,616</u>	<u>\$ 2,847,972</u>	<u>\$ 17,819,588</u>

2014			
Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
\$ 57,447,137	\$ -0-	\$ 57,447,137	\$ 4,988,036
9,241,780	6,081,356	15,323,136	522,386
<u>66,688,917</u>	<u>6,081,356</u>	<u>72,770,273</u>	<u>5,510,422</u>
2,040,753	-0-	2,040,753	(172,999)
1,302,694	-0-	1,302,694	(42,658)
980,459	-0-	980,459	(181,848)
635,905	-0-	635,905	(12,987)
420,465	-0-	420,465	(340,655)
68,850	-0-	68,850	(10,105)
128,382	-0-	128,382	(44,260)
<u>5,577,508</u>	<u>-0-</u>	<u>5,577,508</u>	<u>(805,512)</u>
5,060,503	(5,060,503)	-0-	-0-
<u>77,326,928</u>	<u>1,020,853</u>	<u>78,347,781</u>	<u>4,704,910</u>
61,723,780	-0-	61,723,780	7,282,050
762,602	-0-	762,602	254,493
4,640,219	-0-	4,640,219	900,019
1,374,236	-0-	1,374,236	206,325
1,041,566	-0-	1,041,566	8,970
402,161	-0-	402,161	31,604
<u>69,944,564</u>	<u>-0-</u>	<u>69,944,564</u>	<u>8,683,461</u>
2,175,085	-0-	2,175,085	415,321
3,512,764	-0-	3,512,764	334,410
<u>5,687,849</u>	<u>-0-</u>	<u>5,687,849</u>	<u>749,731</u>
<u>75,632,413</u>	<u>-0-</u>	<u>75,632,413</u>	<u>9,433,192</u>
1,694,515	1,020,853	2,715,368	(4,728,282)
<u>15,952,959</u>	<u>1,164,175</u>	<u>17,117,134</u>	<u>2,715,368</u>
<u>\$ 17,647,474</u>	<u>\$ 2,185,028</u>	<u>\$ 19,832,502</u>	<u>\$ (2,012,914)</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, 2015 and 2014

	2015			
	Program Services	Manage- ment and General	Fund- raising	Total
Program Food Costs				
Value of donated goods distributed	\$ 63,142,033	\$ -0-	\$ -0-	\$ 63,142,033
Cost of purchased goods sold	4,926,007	-0-	-0-	4,926,007
Processing and other costs	937,790	-0-	-0-	937,790
Total Program Food Costs	<u>69,005,830</u>	<u>-0-</u>	<u>-0-</u>	<u>69,005,830</u>
Direct Service Grants	<u>1,017,095</u>	<u>-0-</u>	<u>-0-</u>	<u>1,017,095</u>
Personnel Expenses				
Salaries and wages	3,889,892	1,346,170	1,578,440	6,814,502
Employee benefits	960,166	237,425	148,463	1,346,054
Payroll taxes	322,900	106,470	123,747	553,117
Outside labor	210,397	12,953	17,984	241,334
Pension	156,883	73,117	57,772	287,772
Total Personnel Expenses	<u>5,540,238</u>	<u>1,776,135</u>	<u>1,926,406</u>	<u>9,242,779</u>
Warehouse and Building Expenses				
Depreciation	802,568	-0-	38,101	840,669
Repairs and maintenance supplies	312,355	-0-	21	312,376
Utilities	294,714	9,349	7,141	311,204
Trash service	119,164	2,348	-0-	121,512
Insurance	51,760	-0-	-0-	51,760
Total Warehouse and Building Expenses	<u>1,580,561</u>	<u>11,697</u>	<u>45,263</u>	<u>1,637,521</u>
Transportation Expenses				
Fuel	276,568	-0-	-0-	276,568
Depreciation	242,073	-0-	-0-	242,073
Repairs and maintenance	204,874	-0-	-0-	204,874
Rent	100,355	-0-	-0-	100,355
Insurance	87,903	-0-	-0-	87,903
Freight	78,103	-0-	-0-	78,103
Licenses, fees and tolls	60,660	-0-	-0-	60,660
Total Transportation Expenses	<u>1,050,536</u>	<u>-0-</u>	<u>-0-</u>	<u>1,050,536</u>

2014

Program Services	Manage- ment and General	Fund- raising	Total	Increase (Decrease)
\$ 56,141,808	\$ -0-	\$ -0-	\$ 56,141,808	\$ 7,000,225
3,866,119	-0-	-0-	3,866,119	1,059,888
1,715,853	-0-	-0-	1,715,853	(778,063)
61,723,780	-0-	-0-	61,723,780	7,282,050
762,602	-0-	-0-	762,602	254,493
3,386,524	1,057,298	1,334,922	5,778,744	1,035,758
583,479	289,959	117,121	990,559	355,495
286,805	87,004	109,479	483,288	69,829
224,079	41,210	37,307	302,596	(61,262)
159,332	49,757	62,809	271,898	15,874
4,640,219	1,525,228	1,661,638	7,827,085	1,415,694
663,876	-0-	17,491	681,367	159,302
278,963	-0-	392	279,355	33,021
286,878	9,310	7,115	303,303	7,901
91,348	450	-0-	91,798	29,714
53,171	-0-	-0-	53,171	(1,411)
1,374,236	9,760	24,998	1,408,994	228,527
288,361	-0-	-0-	288,361	(11,793)
240,230	-0-	-0-	240,230	1,843
186,805	2,006	-0-	188,811	16,063
93,792	-0-	115	93,907	6,448
73,860	-0-	-0-	73,860	14,043
74,010	-0-	-0-	74,010	4,093
84,508	-0-	-0-	84,508	(23,848)
1,041,566	2,006	115	1,043,687	6,849

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, 2015 and 2014

	2015			
	Program Services	Manage- ment and General	Fund- raising	Total
Administrative Expenses				
Printing	\$ 7,749	\$ 636	\$ 786,382	\$ 794,767
Professional fees	17,271	304,366	461,227	782,864
Office and administrative expenses	94,323	100,323	211,352	405,998
Postage	4,476	1,199	260,276	265,951
Public relations	80,519	1,573	122,219	204,311
Depreciation and amortization	-0-	130,719	-0-	130,719
Computer and service bureau	8,597	110,515	2,287	121,399
Telephone	74,333	27,214	14,660	116,207
Travel and lodging	58,961	36,254	10,846	106,061
Interest	17,316	42,695	-0-	60,011
Offsite rent and storage	52,067	-0-	-0-	52,067
Dues and subscriptions	4,200	35,890	3,913	44,003
Seminars and conferences	4,887	5,478	2,343	12,708
Insurance	9,031	-0-	-0-	9,031
Bad debt expense	35	5,712	-0-	5,747
Total Administrative Expenses	<u>433,765</u>	<u>802,574</u>	<u>1,875,505</u>	<u>3,111,844</u>
Total Expenses	<u>\$ 78,628,025</u>	<u>\$ 2,590,406</u>	<u>\$ 3,847,174</u>	<u>\$ 85,065,605</u>

2014

Program Services	Manage- ment and General	Fund- raising	Total	Increase (Decrease)
\$ 10,347	\$ 1,689	\$ 783,746	\$ 795,782	\$ (1,015)
6,974	334,852	282,089	623,915	158,949
120,364	69,319	257,528	447,211	(41,213)
5,477	2,573	263,887	271,937	(5,986)
49,952	816	200,940	251,708	(47,397)
-0-	25,060	-0-	25,060	105,659
1,889	100,384	270	102,543	18,856
72,299	14,443	14,569	101,311	14,896
58,130	29,169	13,491	100,790	5,271
17,939	21,922	-0-	39,861	20,150
31,516	-0-	-0-	31,516	20,551
4,254	32,271	3,652	40,177	3,826
10,447	4,993	3,091	18,531	(5,823)
3,953	-0-	-0-	3,953	5,078
8,620	600	2,750	11,970	(6,223)
402,161	638,091	1,826,013	2,866,265	245,579
\$ 69,944,564	\$ 2,175,085	\$ 3,512,764	\$ 75,632,413	\$ 9,433,192

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

THE MARYLAND FOOD BANK, INC.
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (2,012,914)	\$ 2,715,368
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,213,461	946,657
Provision for bad debts	5,747	11,970
Unrealized loss (gain) on investments	118,337	(247,733)
Realized gain on sale of investments	(89,148)	(97,561)
Noncash contributions - investments	(106,333)	(115,482)
Changes in operating assets and liabilities:		
Accounts receivable	(76,354)	(90,195)
Pledges receivable	(1,017,516)	(780,619)
Inventories	662,609	(1,037,640)
Prepaid expenses	(114,754)	196,713
Accounts payable and accrued expenses	415,114	15,619
Deferred revenue	20,000	(164,994)
Deferred compensation payable	20,000	-0-
Net Cash Provided by (Used in) Operating Activities	<u>(961,751)</u>	<u>1,352,103</u>
Cash Flows from Investing Activities		
Purchases of investments	(577,994)	(392,264)
Proceeds from sale of investments	570,284	688,975
Purchase of property	(316,046)	(3,340,493)
Net Cash Used in Investing Activities	<u>(323,756)</u>	<u>(3,043,782)</u>
Cash Flows from Financing Activities		
Payments on long-term debt	(301,190)	(196,093)
Proceeds from long-term debt	3,542,292	2,087,533
Payments on short-term bank borrowings	(1,168,602)	(1,664,729)
Proceeds from short-term bank borrowings	1,841,971	993,782
Acquisition of deferred financing costs	(8,025)	-0-
Net Cash Provided by Financing Activities	<u>3,906,446</u>	<u>1,220,493</u>
Net Increase (Decrease) in Cash and Cash Equivalents (Including Cash and Cash Equivalents, Restricted)	2,620,939	(471,186)
Cash and Cash Equivalents at Beginning of Year	<u>1,306,372</u>	<u>1,777,558</u>
Cash and Cash Equivalents at End of Year (Including Cash and Cash Equivalents, Restricted)	<u>\$ 3,927,311</u>	<u>\$ 1,306,372</u>

	<u>2015</u>	<u>2014</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 60,011	\$ 39,861
Noncash Investing and Financing Activities		
Acquisition of property	\$ 923,763	\$ 3,340,491
Less: property acquired through capital leases	(607,717)	-0-
Net cash paid for property	<u>\$ 316,046</u>	<u>\$ 3,340,491</u>
Debt refinancing		
Proceeds from refinanced mortgage	\$ 6,560,000	\$ -0-
Less: repayment of bonds payable	(2,048,045)	-0-
Less: repayment of short-term bank borrowings	(901,434)	-0-
Less: deferred financing costs	(68,229)	-0-
Net cash received from long-term debt	<u>\$ 3,542,292</u>	<u>\$ -0-</u>

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 1: Summary of Significant Accounting Policies

The Maryland Food Bank, Inc. (the Food Bank) is a nonprofit organization, incorporated in the State of Maryland on June 14, 1978, and is an affiliate of Feeding America, which is the nation's leading domestic hunger-relief charity. The Food Bank was founded to coordinate the procurement and distribution of food donations from manufacturers, wholesalers, retailers and government agencies to organizations providing free food to the state's hungry. The Food Bank receives shared maintenance payments from those organizations based on the amount of food they receive. The Food Bank also receives value added fees on food that they process. Through its purchased food program, the Food Bank purchases supplemental food items and distributes them at cost plus a modest mark-up to qualifying organizations.

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

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

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

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

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

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

Permanently restricted net assets results from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the organization's actions. During the years ended June 30, 2015 and 2014, the Food Bank did not have any permanently restricted net assets.

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable: Accounts receivables, which are from program services, are carried at cost less an allowance for doubtful accounts. The Food Bank provides for doubtful accounts based on anticipated collection losses. The estimated losses are determined from historical collection experience and a review of outstanding receivables. Delinquent receivables are written off by management when, in their determination, all reasonable collection efforts have been exhausted. Recoveries of receivables previously written off are recorded when received. Management has recorded an allowance for doubtful accounts of \$-0- and \$6,417 as of June 30, 2015 and 2014, respectively.

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, 2015 and 2014, since in the opinion of management all outstanding pledges receivable are collectible.

Investments: Investments with readily determinable fair market values are reported at fair value in the statements of financial position. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments for the year are reported in the statements of activities.

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

The Food Bank stores and distributes USDA food commodities under an agreement with The Maryland Department of Human Resources, Office of Grants Management (DHR) for The Emergency Food Assistance Program (TEFAP). The Food Bank received, stored and distributed this food at the direction of DHR through September 30, 2013; therefore, the value of such food is not reflected in the Food Bank's financial statements. Effective October 1, 2013, the Food Bank's agreement with the DHR provides for the Food Bank to assume responsibility for TEFAP; therefore, the value of such food is now reflected in the Food Bank's financial statements.

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, 2015 and 2014, inventory received and distributed was valued at \$1.72 and \$1.69 per pound. As of June 30, 2015 and 2014, the inventory on hand was adjusted to \$1.70 and \$1.72 per pound, based on the most current average wholesale value determined by Feeding America.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 1: Summary of Significant Accounting Policies (Continued)

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

Deferred Financing Costs: Deferred financing costs of \$135,721 were being amortized on a straight-line basis over the term of the applicable mortgage. In June 2015, the Food Bank refinanced the mortgage and wrote off the remaining balance of the old deferred financing costs. In association with the new mortgage, beginning July 1, 2015, the Food Bank will amortize deferred financing costs of \$76,254 on a straight-line basis over the term of the applicable mortgage. Accumulated amortization as of June 30, 2015 and 2014 was \$-0- and \$24,299, respectively.

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

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

Income Taxes: The Food Bank has been recognized by the Internal Revenue Service (IRS) as an organization exempt from income taxes under Internal Revenue Code (IRC) §501(c)(3). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Food Bank had no unrelated business income for the years ended June 30, 2015 and 2014. Accordingly, no provision for income taxes is reflected in these financial statements.

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

Note 2: Investments and Fair Value Measurement

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 2: Investments and Fair Value Measurement (Continued)

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

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

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

The tables below present the balances of investments measured at fair value on a recurring basis by level within the hierarchy, as of June 30, 2015 and 2014:

	2015			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 8	\$ 8	\$ -0-	\$ -0-
Mutual funds:				
Equity funds	1,534,365	1,534,365	-0-	-0-
Bond funds	965,343	965,343	-0-	-0-
International funds	629,109	629,109	-0-	-0-
Total Investments	<u>\$ 3,128,825</u>	<u>\$ 3,128,825</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 2: Investments and Fair Value Measurement (Continued)

	2014			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 4,339	\$ 4,339	\$ -0-	\$ -0-
Corporate stock	5,057	5,057	-0-	-0-
Mutual funds:				
Equity funds	1,443,681	1,443,681	-0-	-0-
Bond funds	959,044	959,044	-0-	-0-
International funds	631,850	631,850	-0-	-0-
Total Investments	<u>\$ 3,043,971</u>	<u>\$ 3,043,971</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Investment income, net, as reported on the statements of activities for the years ended June 30, 2015 and 2014 is comprised of the following:

	2015	2014
Interest and dividend income	\$ 132,107	\$ 96,538
Net unrealized gains (losses)	(118,337)	247,733
Net realized gains	89,148	97,561
Investment fees	(23,108)	(21,367)
Total Investment Income, Net	<u>\$ 79,810</u>	<u>\$ 420,465</u>

Note 3: Pledges Receivable

Pledges receivable as of June 30, 2015 and 2014 consisted of the following unconditional promises to give:

	2015	2014
Receivable in less than one year	\$ 1,210,675	\$ 757,452
Receivable in one to five years	608,897	70,000
Receivable greater than five years	40,000	-0-
Total pledge receivable	<u>1,859,572</u>	<u>827,452</u>
Present value discount	(17,937)	(3,333)
Net pledges receivable	<u>\$ 1,841,635</u>	<u>\$ 824,119</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 4: Inventories

Inventories of donated and purchased food as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Baltimore:		
Donated	\$ 856,938	\$ 612,208
TEFAP	316,337	969,828
Out on consignment (at cost)	10,428	7,978
Purchased (at cost)	182,282	104,944
	<u>1,365,985</u>	<u>1,694,958</u>
Salisbury:		
Donated	86,257	367,991
TEFAP	11,344	31,615
Purchased (at cost)	19,483	18,353
	<u>117,084</u>	<u>417,959</u>
Hagerstown:		
Donated	57,571	63,657
TEFAP	12,103	39,179
Purchased (at cost)	16,292	15,891
	<u>85,966</u>	<u>118,727</u>
Total Inventories	<u>\$ 1,569,035</u>	<u>\$ 2,231,644</u>
Baltimore donated inventory in pounds	<u>504,081</u>	<u>355,935</u>
Salisbury donated inventory in pounds	<u>50,740</u>	<u>213,948</u>
Hagerstown donated inventory in pounds	<u>33,865</u>	<u>37,010</u>
Valuation per pound at year end	<u>\$ 1.70</u>	<u>\$ 1.72</u>

Note 5: Line of Credit

The Food Bank had a revolving line of credit (LOC) agreement with Wells Fargo Bank, N.A (Wells Fargo), for the purpose of purchasing bulk food products and for other operating needs. The LOC allowed maximum borrowings outstanding of \$900,000, with a seasonal increase up to \$1,500,000 for the periods commencing July 1 through October 31 and commencing December 1 through December 31. Borrowings against this line of credit were subject to interest at LIBOR plus 2%, which was payable monthly (2.25% at June 30, 2014). As of June 30, 2014, there was outstanding borrowings on the LOC of \$228,065. In June 2015, this line of credit was paid off.

In June 2015, the Food Bank entered into a \$1,750,000 revolving line of credit (LOC) agreement with Sandy Spring Bank (Sandy Spring), for the purpose of purchasing bulk food products and for other operating needs. Borrowings under this line of credit are subject to interest at the one month LIBOR rate plus 1.6%, which is payable monthly. As of June 30, 2015, the interest rate was 1.79%. The LOC matures on February 28, 2017 and requires the same financial covenants as the mortgage payable (see Note 6). As of June 30, 2015, there were no outstanding borrowings on the LOC.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 6: Long-Term Debt

Bonds Payable: On December 1, 2010, the Food Bank entered into an agreement with The Maryland Economic Development Corporation to issue \$3,550,000 of Series 2010 Revenue Bonds for the purpose of financing the cost of the acquisition, construction, installation, renovation and equipping of office space improvements, a parking lot, refrigerated trucks, a tractor trailer cab, a generator, warehouse freezer improvements, roofing improvements and other capital expenditures at certain facilities in Baltimore County and in Wicomico County, Maryland. The trustee for the bonds was Wells Fargo.

The bond note was 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 interest rate for the bonds payable was based on 66% of the one month London Interbank Offered Rate (LIBOR) plus 1.5% for the first five years. As of June 30, 2014, the interest rate was 1.60%. The bond had monthly principal payment requirements and was scheduled to mature on February 1, 2031, however the Food Bank had the right to prepay the bond without premium or penalty. As of June 30, 2014, the outstanding balance of the bonds payable totaled \$2,246,719. In June 2015, the bonds payable were repaid in full through a debt refinancing agreement with Sandy Spring.

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

Loan Payable: On November 30, 2012, the Food Bank entered into a promissory note agreement with Feeding America in the amount of \$75,000. The loan matures on November 30, 2015, requires annual principal installments of \$25,000 commencing November 30, 2013, and bears interest as follows: 0% through November 30, 2013, 2% through November 30, 2014 and 4% through maturity of the loan.

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

The aggregate annual maturities of long-term debt as of June 30, 2015 are as follows:

Year Ending June 30:	Mortgage Payable	Loan Payable	Capital Leases	Total
2016	\$ -0-	\$ 25,000	\$ 119,990	\$ 144,990
2017	-0-	-0-	122,725	122,725
2018	-0-	-0-	117,433	117,433
2019	262,400	-0-	108,481	370,881
2020	262,400	-0-	101,948	364,348
Thereafter	6,035,200	-0-	138,524	6,173,724
Total	6,560,000	25,000	709,101	7,294,101
Less: Current maturities	-0-	25,000	119,990	144,990
Non-current maturities	<u>\$ 6,560,000</u>	<u>\$ -0-</u>	<u>\$ 589,111</u>	<u>\$ 7,149,111</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 7: Capital Lease Obligations

During the year ended June 30, 2014, the Food Bank leased two trucks having a combined cost of \$212,347 under a noncancelable capital lease agreement. During the year ended June 30, 2015, the Food Bank leased five additional trucks having a combined cost of \$607,717 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, 2015 and 2014 was \$103,096 and \$32,006, respectively.

As of June 30, 2015, future minimum lease payments under the capital lease obligations, summarized by year, are as follows:

Year Ending June 30:	
2016	\$ 134,316
2017	134,316
2018	126,271
2019	115,008
2020	106,263
Thereafter	<u>141,030</u>
Total minimum lease payments remaining	757,204
Less: Amount representing interest (.96% to 3.57%)	<u>48,103</u>
Present value of future minimum lease payments	<u><u>\$ 709,101</u></u>

Note 8: Temporarily Restricted Net Assets

The Food Bank has several temporarily restricted funds, which may be fully expended but only for the purpose established by the respective donors. Temporarily restricted net assets were available for the following purposes as of June 30, 2015 and 2014:

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

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 8: Temporarily Restricted Net Assets (Continued)

	Year Ended June 30, 2014			
	Balance at June 30, 2014	Contributions	Released From Restrictions	Balance at June 30, 2015
Capital campaign	\$ -0-	\$ 1,663,463	\$ (155,768)	\$ 1,507,695
Capital projects	504,520	160,080	(616,906)	47,694
Youth programs	274,956	951,108	(774,033)	452,031
Food distribution	96,520	3,084,098	(3,033,011)	147,607
SNAP outreach	-0-	82,607	(52,606)	30,001
Food purchase share program	14,012	100,000	(114,012)	-0-
Community kitchen operations	264,167	40,000	(304,167)	-0-
General operations	10,000	-0-	(10,000)	-0-
	<u>\$ 1,164,175</u>	<u>\$ 6,081,356</u>	<u>\$ (5,060,503)</u>	<u>\$ 2,185,028</u>

Note 9: Board Designated Net Assets

The Board of Directors (the Board) of the Food Bank has established a board designated fund. The purpose of the board designated fund is to support debt service for two years, establish an emergency fund for major equipment failure and create a three month working capital reserve in compliance with Feeding America standards. The Board designated a specific investment account to hold the board designated funds. Investment income earned on this account is to be added to the board designated fund balance. Withdrawals from the board designated fund must be approved by the Board. The balance of the board designated fund was \$3,128,825 and \$3,043,971 as of June 30, 2015 and 2014, respectively.

Note 10: In-Kind Transactions

Distributions of food donated, facilitated, purchased and under the TEFAP food program for the years ended June 30, 2015 and 2014 are summarized in pounds as follows:

	2015	2014
Donated	17,441,352	17,669,725
Facilitated	16,725,917	12,804,695
Purchased	11,611,320	6,948,937
TEFAP:		
DHR directed	-0-	898,365
The Food Bank directed	7,260,677	5,859,739
Total Distributions	<u>53,039,266</u>	<u>44,181,461</u>

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 10: In-Kind Transactions (Continued)

Several food distributors have donated delivery services to the Food Bank. 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. Beginning with the 2009 plan year, 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, 2015 and 2014 were \$287,773 and \$271,898, respectively.

Note 12: Deferred Compensation and Assets Held In Trust

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

Participants of the 457 Plan are entitled to receive their deferred compensation amount, plus investment income on such amounts, upon severance from employment, as defined in the plan documents. The deferred compensation balance under the 457 Plan at June 30, 2015 and 2014 was \$196,950 and \$202,017, respectively, which has been invested in a separate income-bearing account, referred to as assets held in trust on the statements of financial position.

The Food Bank has also established a deferred incentive plan (the Incentive Plan), which is intended to be an ineligible deferred compensation plan as described in IRC Section 457(f). The Incentive Plan has been established to provide incentive and retention awards for achievement in meeting individual and employer goals and objectives for a select group of management or highly compensated employees. The deferred compensation balance under the Incentive Plan at June 30, 2015 and 2014 was \$20,000 and \$-0-, respectively, which has been invested in a separate income-bearing account, referred to as cash and cash equivalents, restricted on the statements of financial position.

THE MARYLAND FOOD BANK, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Note 13: Cash and Cash Equivalents

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

Note 14: Subsequent Events

In preparing these financial statements, the Food Bank has evaluated events and transactions for potential recognition or disclosure through October 29, 2015, the date the financial statements were available to be issued. During the period from July 1, 2015 through October 29, 2015, except for the events described below, the Food Bank did not have any other material recognizable subsequent events:

On July 2015, the Food Bank purchased real property in Cecil County, Maryland for \$2,515,000 and financed it with a promissory note with Sandy Spring in the amount of \$2,500,000. The note bears interest at the one month LIBOR rate plus 1.5%, is secured by a first priority deed of trust on the property and currently matures on November 1, 2015. The lender, at its discretion, may extend the maturity date until January 1, 2016 and, if the principal balance due at any time prior to the maturity date is reduced to \$1,500,000 or less, the lender may further extend the due date for fifty-four months after the principal balance due become \$1,500,000 or less.

In September 2015, the Food Bank executed a letter of intent to purchase real property in Wicomico County, Maryland for \$1,400,000.

