

MARYLAND FOOD CENTER AUTHORITY

**Financial Statements Together with
Report of Independent Public Accountants**

For the Year Ended June 30, 2018



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2018

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Revenue, Expenses and Change in Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Proportionate Share of Net Pension Liability and Pension Contributions	25
SUPPLEMENTARY INFORMATION	
Combining Schedule of Revenue, Expenses and Change in Net Position	27



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Maryland Food Center Authority

Report on the Financial Statements

We have audited the accompanying statement of net position of the Maryland Food Center Authority (the Authority), a component unit of the State of Maryland, as of June 30, 2018, and the related statements of revenue, expenses and change in net position and cash flows for the year 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 controls 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 controls 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 controls. 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 Authority, as of June 30, 2018, and the change in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis and schedules of proportionate share of net pension liability and pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority’s basic financial statements. The combining schedule of revenue, expenses and change in net position is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of revenue, expenses and change in net position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule of revenue, expenses and change in net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hunt Valley, Maryland
September 24, 2018

A handwritten signature in black ink that reads "SB & Company, LLC".

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

Our discussion and analysis of the Maryland Food Center Authority's (the Authority or MFCA) financial performance provides an overview of the Authority's financial activities as of and for the years ended June 30, 2018 and 2017. Please read this management's discussion and analysis in conjunction with the Authority's basic financial statements, which begin on page 10.

Using this Annual Report

This report consists of a series of proprietary fund financial statements. The Statement of Net Position; Statement of Revenue, Expenses and Change in Net Position; and Statement of Cash Flows provide information about the activities of the Authority as a whole and begin on page 10.

The Proprietary Fund Financial Statements

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole, better or worse, as a result of the year's activities?" The Statement of Net Position; Statement of Revenue, Expenses and Change in Net Position; and Statement of Cash Flows report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

You can think of the Authority's net position – the difference between its assets, deferred outflows, liabilities, and deferred inflows – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position is one indicator of whether its financial health is improving or deteriorating. The Authority's activities are all business-type activities.

- Business-type activities – The Authority charges rents and entrance fees to customers to help it cover all or most of the cost of certain services it provides. The wholesale produce, wholesale seafood, capital improvements and administrative services are reported here.

You should consider other non-financial factors, such as the restrictive covenants attached to all businesses in the Maryland Food Center, location of the Maryland Food Center to other major food distribution facilities, and interest of food businesses looking to move into the Maryland Food Center in your assessment of the Authority's health.

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

CONDENSED FINANCIAL INFORMATION

Statements of Net Position

The following table provides comparative data as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
ASSETS AND DEFERRED OUTFLOWS			
Current assets	\$ 8,754,986	\$ 9,467,283	\$ (712,297)
Net capital assets	24,328,975	23,384,735	944,240
Deferred outflows related to pension	700,904	730,799	(29,895)
Total Assets and Deferred Outflows	<u>33,784,865</u>	<u>33,582,817</u>	<u>202,048</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
Liabilities			
Current liabilities	1,024,753	566,023	458,730
Noncurrent liabilities	1,982,581	2,089,319	(106,738)
Deferred inflows related to pension	129,712	48,546	81,166
Total Liabilities and Deferred Inflows	<u>3,137,046</u>	<u>2,703,888</u>	<u>433,158</u>
Net Position			
Net investment in capital assets	24,328,975	23,384,735	944,240
Unrestricted	6,318,844	7,494,194	(1,175,350)
Total Net Position	<u>\$ 30,647,819</u>	<u>\$ 30,878,929</u>	<u>\$ (231,110)</u>

The decrease of \$712,297 in current assets, as of June 30, 2018, is mainly attributable to a total decrease in cash and cash equivalents of \$831,513. The increase of \$944,240 in net investment in capital assets is due to \$1,927,470 in capital additions related to vehicles, engine repairs, roof repairs and development projects net of depreciation of \$978,290 and disposals of \$66,513. The decrease in net position of \$231,110 is due to the excess expenses over revenue during the year.

The increase of \$458,730 in current liabilities, as of June 30, 2018, is due to an increase in accrued expenses of \$470,174 related to invoices for the Baltimore Contracting project, phases one and two part of the MFCA's comprehensive redevelopment plan at the Maryland Market center.

The change in the deferred outflows of \$29,895, the deferred inflows of \$81,166, and the noncurrent liabilities of \$106,738, as of June 30, 2018, are related to pension accounting in accordance with Government Accounting Standards Board (GASB) Statement No. 68.

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

CONDENSED FINANCIAL INFORMATION (continued)

Statements of Revenue, Expenses and Change in Net Position

The following table provides comparative data for the years ended June 30, 2018 and 2017.

	<u>For the Year Ended June 30,</u>		Increase (Decrease)
	2018	2017	
Rental	\$ 2,226,737	\$ 2,311,287	\$ (84,550)
Service Expense Reimbursement Revenue	2,084,645	2,358,166	(273,521)
Total operating revenue	4,311,382	4,669,453	(358,071)
Operating Expenses	2,457,847	2,351,640	106,207
Service Reimbursement Expenses	2,084,645	2,358,166	(273,521)
Total operating expenses	4,542,492	4,709,806	(167,314)
Operating loss	(231,110)	(40,353)	(190,757)
Nonoperating revenue	-	5,332,306	(5,332,306)
Change in Net Position	\$ (231,110)	\$ 5,291,953	\$ (5,523,063)
Total Revenue	\$ 4,311,382	\$ 10,001,759	\$ (5,690,377)
Total Expenses	4,542,492	4,709,806	(167,314)
Total Change in Net Position	\$ (231,110)	\$ 5,291,953	\$ (5,523,063)

During the year ended June 30, 2018, operating revenue decreased by \$84,550. This decrease is primarily due to vacancies of the rental space at the Maryland Market Center (formerly known as the Maryland Wholesale Seafood Market).

Service Expense Reimbursements represent the operating costs of a facility. The MFCA does not collect Service Expense Reimbursement Income in excess of Service Expense Reimbursement Expense therefore, Service Expense Reimbursement Income and Expense, when combined, equal zero.

Service Expense Reimbursement Revenue decreased by \$273,521 and Service Expense Reimbursement Expense decreased by \$273,521. This decrease is attributable to a reduction of tenant expenses due to managements cost control efforts and changing the billing process for tenant landfill costs from a proportionate share basis to an actual basis.

Operating Revenue Expenses increased by \$106,207. This increase is attributable to adding a new administrative employee (\$43,343), depreciation from a new vehicle purchase (\$12,218), increase in travel in FY 18 versus FY 17 due to a medical issue in FY 17 which prevented the Executive Director from attending regularly scheduled conferences (\$9,433), and property tax assessments which increased Howard County property taxes (\$9,191).

Nonoperating revenue decreased as there was a large gain on the sale of land of \$5,332,306 in the prior year related to Sysco exercising its purchase option.

Due to current vacancy and renovation efforts, overall, the Authority's financial position deteriorated during the year ended June 30, 2018.

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

CONDENSED FINANCIAL INFORMATION (continued)

Statements of Revenue, Expenses and Change in Net Position (continued)

The Maryland seafood industry in recent years has consolidated, while at the same time new food safety standards have affected the suitability of MFCA facilities for certain seafood companies. In FY 2017, the MFCA experienced an occupancy rate of 36% in the building formerly known as the Maryland Wholesale Seafood Market. As a result, the MFCA crafted a comprehensive redevelopment plan for this site.

The Maryland Wholesale Seafood Market was constructed in 1984 and has been fully occupied until 2017. The facility has experienced significant wear due to excessive water use common in the seafood industry and much of the seafood tenant space has been returned to the MFCA in a state of disrepair which exceeded the value of held security deposits. Also, the building's original design in 1984 was not designed with subsequent users in mind and catered to individual tenant specifications resulting in space much too large to accommodate small-size food companies.

These vacancies provided an opportunity for the MFCA to address today's demand for space in the seafood industry, look to the future of wholesale food distribution in general, and the concept for the Maryland Market Center grew out of these challenges.

In 2018, the building formerly known as the Maryland Wholesale Seafood Market was renamed the Maryland Market Center to accommodate food-users other than seafood companies.

The three main current challenges of leasing the vacant space at the Maryland Market Center is the odor from existing seafood companies' operations, the condition of the vacant space, and the overall appearance of the exterior of the building.

Part of the MFCA comprehensive redevelopment plan requires the relocation of all existing seafood companies to one end of the building to consolidate the seafood activity. In order to move the existing seafood tenants, the MFCA commenced a major renovation of previously vacant units, in what is now referred to as the Seafood Section of the Maryland Market Center. All existing seafood tenants will be relocated to the Seafood Section of the Maryland Market Center by December 31, 2018.

The next phase of the redevelopment plans calls for the renovation of vacant space in what is now referred to as the Non-Seafood Section of the Maryland Market Center. A total of six leasable units will be renovated and redesigned to accommodate small-size food companies.

After the interior of the vacant units in the Maryland Market Center has been updated, the comprehensive redevelopment plan describes an update to the façade of the existing building which will give the facility a more-modern appearance.

As a result of the MFCA comprehensive redevelopment plan, the MFCA has signed leases with multiple non-seafood companies who now occupy space in the Non-Seafood Section of the Maryland Market Center.

The occupancy rate at the Maryland Market Center has improved from 36% in 2017 to 66% as of June 30, 2018 and is projected to be 77% by December 31, 2018 as a result of the MFCA comprehensive redevelopment plan.

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

BUDGETARY HIGHLIGHTS

The Authority does not budget for revenue. The Authority had a positive variance of \$324,928 from comparing actual to budgeted expenses for the year ended June 30, 2018.

	For the Year Ended June 30, 2018			
	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Operating Expenses				
Salaries, wages and related costs	\$ 1,885,261	\$ 1,925,653	\$ 1,823,194	\$ 102,459
Contractual services	1,017,250	907,420	956,353	(48,933)
Depreciation *	894,481	962,541	978,290	(15,749)
Taxes	230,000	235,000	243,695	(8,695)
Fuel and utilities	339,000	174,000	233,657	(59,657)
Vehicle operation *	246,993	250,165	85,073	165,092
Technical and special fees	100,756	95,756	55,258	40,498
Travel	87,750	57,750	58,545	(795)
Fixed charges	117,632	107,632	39,574	68,058
Communication	43,264	43,264	36,249	7,015
Supplies and materials	73,050	72,350	30,460	41,890
Maintenance and equipment charges	35,889	35,889	2,144	33,745
Total Operating Expenses	<u>\$ 5,071,326</u>	<u>\$ 4,867,420</u>	<u>\$ 4,542,492</u>	<u>\$ 324,928</u>

* Produce and Seafood Market depreciation of \$130,867 is presented in the Original and Final Budget as Vehicle Operation expense. The amount is recorded as depreciation expenses in the Statement of Revenue, Expenses and Change in Net Position.

The positive variance for salaries, wages, and related costs is due to state-controlled budget instructions. The state mandated calculation to determine budgeted costs for Retirees' Health Insurance and current employee health insurance generally results a significant positive budget variance. The negative variance for Contractual Services relates to the MFCA's proportionate share of the Service Expense Reimbursement costs at the Maryland Market Center related to vacant units. The negative variance for Fuel and Utilities is due to water meter installation issues at the Maryland Market Center which delayed the start of the new billing process of categorizing Howard County water costs based on actual tenant usage versus proportionate share.

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018 and 2017, the Authority had capital assets of \$44,743,688, and \$42,882,681, net of accumulated depreciation of \$20,414,663 and \$19,497,946, for net capital assets of \$24,328,975 and \$23,384,735, respectively. This represents an increase of \$944,240 as of June 30, 2018, from the prior year. The increase is due to additions of \$1,927,470 of capital assets, disposals in the amount of \$66,513, and \$978,290 of depreciation expense.

Major additions (those greater than \$50,000) to capital assets during the year ended June 30, 2018, are as listed below:

Trash Truck and Pond	\$ 323,718
Development Projects	<u>1,603,752</u>
Total	<u>\$ 1,927,470</u>

Debt

As of June 30, 2018, the Authority had no long-term debt outstanding.

ECONOMIC FACTORS

Maryland Market Center (MMC), formerly known as Maryland Wholesale Seafood Market

The MMC leases expire on June 30, 2020 or June 30, 2022, depending on the lease term selected by the tenant at lease inception. The MMC occupancy rate as of June 30, 2018, was 66% and the occupancy rate as of December 31, 2018, is projected to be 77%.

Truck Parking Lot

All spaces in the Truck Parking Lot were rented through February 28, 2019.

Maryland Wholesale Produce Market (MWPM)

The MWPM leases expire on June 30, 2020 or June 30, 2022 depending on the lease term selected by the tenant at lease inception.

MWPM occupancy rate was 100% as of June 30, 2018 and the occupancy rate as of December 31, 2018 is projected to be 100%.

MARYLAND FOOD CENTER AUTHORITY

Management's Discussion and Analysis June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Anaerobic Digester

In the first quarter of calendar year 2018, the MFCA Board of Directors and the Maryland Board of Public Works approved a ten-year ground lease, with two additional ten-year option periods, between the Authority and BTS Biogas, LLC to construct an anaerobic digester on 5.5 acres of the Authority's land located on Oceano Avenue. The anaerobic digester uses microbes to convert compostable waste into energy.

The terms of the ground lease require monthly rental payments of \$11,044 per month, or \$132,528 per year, to begin one year from the effective date of the agreement. The receipt of rental payments is also conditioned upon the Authority and BTS Biogas, LLC entering into an Operating Agreement and BTS Biogas LLC's success receiving required governmental permits. Neither of these conditions had been met as of statement issuance.

The anaerobic digester project enjoys the full support from Maryland Governor, Larry Hogan, Maryland Comptroller, Peter Franchot, Maryland Treasurer, Nancy Kopp, Howard County Executive, Allan H. Kittleman, and multiple state and local governmental units.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the users of these financial statements with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, please contact the Authority's Director of Finance at 7801 Oceano Avenue, Jessup, Maryland 20794.

MARYLAND FOOD CENTER AUTHORITY

Statement of Net Position As of June 30, 2018

ASSETS AND DEFERRED OUTFLOWS

Currents Assets

Cash and cash equivalents	\$ 8,457,717
Accounts receivable	297,269
Total Current Assets	8,754,986

Noncurrent Assets

Non-depreciable capital assets	9,843,904
Depreciable capital assets, net of accumulated depreciation	14,485,071
Total Noncurrent Assets	24,328,975
Total Assets	33,083,961

Deferred outflows related to pension	700,904
Total Assets and Deferred Outflows	33,784,865

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	545,439
Accrued payroll and related taxes	51,699
Unearned revenue	72,102
Accrued compensated absences, current portion	150,549
Accrued workers' compensation, current portion	7,350
Tenant deposits	197,614
Total Current Liabilities	1,024,753

Noncurrent Liabilities

Accrued compensated absences	37,637
Accrued workers' compensation	31,650
Net pension liability	1,913,294
Total Noncurrent Liabilities	1,982,581
Total Liabilities	3,007,334

Deferred inflows related to pension	129,712
Total Liabilities and Deferred Inflows	3,137,046

NET POSITION

Net investment in capital assets	24,328,975
Unrestricted	6,318,844
Total Net Position	\$ 30,647,819

The accompanying notes are an integral part of this financial statement.

MARYLAND FOOD CENTER AUTHORITY

Statement of Revenue, Expenses and Change in Net Position For the Year Ended June 30, 2018

Operating Revenue

Charges for services	\$	4,289,837
Other income		21,545
Total Operating Revenue		4,311,382

Operating Expenses

Salaries, wages and related costs		1,823,194
Contractual services		956,353
Depreciation		978,290
Taxes		243,695
Fuel and utilities		233,657
Vehicle operation		85,073
Technical and special fees		55,258
Travel		58,545
Fixed charges		39,574
Communication		36,249
Supplies and materials		30,460
Maintenance and equipment charges		2,144
Total Operating Expenses		4,542,492

Operating Loss

(231,110)

Net position, beginning of year

30,878,929

Net Position, End of Year

\$ 30,647,819

The accompanying notes are an integral part of this financial statement.

MARYLAND FOOD CENTER AUTHORITY

Statement of Cash Flows For the Year Ended June 30, 2018

Cash Flows From Operating Activities

Receipts from customers	\$	4,178,825
Payments to suppliers		(1,264,854)
Payments to employees		(1,822,954)
Net cash from operating activities		<u>1,091,017</u>

Cash Flows From Capital and Related Financing Activities

Sale of capital assets		4,940
Purchases of capital assets		(1,927,470)
Net cash from financing activities		<u>(1,922,530)</u>

Net Change in Cash and Cash Equivalents

		(831,513)
Cash and cash equivalents, beginning of year		9,289,230
Cash and Cash Equivalents, End of Year	\$	<u>8,457,717</u>

Reconciliation of Operating Income to Net Cash

From Operating Activities

Operating loss	\$	(231,110)
Adjustments to reconcile non-cash operating loss to net cash for operating activities:		
Depreciation expense		978,290
Effects of changes in non-cash operating assets and liabilities:		
Accounts receivable		(125,668)
Prepaid expenses		6,452
Accounts payable		448,087
Tenant deposits		(16,136)
Deferred outflows		29,895
Accrued payroll and related taxes		240
Unearned revenue		9,247
Accrued compensated absences		21,615
Deferred inflows		81,166
Net pension liability		(111,061)
Net Cash From Operating Activities	\$	<u>1,091,017</u>

The accompanying notes are an integral part of this financial statement.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements

June 30, 2018

1. ORGANIZATION

The Maryland Food Center Authority (the Authority), an instrumentality and component unit of the State of Maryland, was created as a body corporate and politic of the State of Maryland by the Greater Baltimore Consolidated Wholesale Food Market Authority Act, effective June 1, 1967, under Chapter 145 of the 1967 Laws of Maryland. The Authority has statewide jurisdiction to promote the welfare of Marylanders by undertaking real estate development and management activities that facilitate wholesale food industry activity in the public interest. The Authority is involved with planning and developing regional food industry facilities, including a 400-acre specialized industrial park known as the Maryland Food Center in Jessup, Maryland. The Authority owns and manages property at the Maryland Food Center, including the Maryland Wholesale Produce Market and the Maryland Market Center, formerly known as Maryland Wholesale Seafood Market. The Authority's wholesale markets provide a commercial arena for competing businesses to deliver vital food services throughout the region, under the management of a publicly accountable state agency. The Authority also owns, and redeveloped, the Rock Hall Clam House in Rock Hall, Maryland, which it leases to local watermen and watermen related industries. The Executive Board of the Authority is comprised of 12 members, including the State Comptroller, the Secretary of Agriculture, the Secretary of General Services, the Director of Agricultural Extension for the State of Maryland who is Dean of the College of Agriculture and Natural Resources at the University of Maryland, and private citizens appointed by the Governor.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Cash and Cash Equivalents

The Authority considers all cash on deposit with the State of Maryland's treasury to be cash equivalents as well as all highly liquid investments with original maturities of three months or less.

Capital Assets and Depreciation

Capital expenditures greater than \$1,000, with an estimated useful life greater than one year, are capitalized. Capital assets are recorded at historical cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets and Depreciation (continued)

Depreciation of capital assets is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	15 to 50 years
Capital Improvements	10 to 40 years
Equipment	5 to 10 years

Revenue and Expenses

Operating revenue consists primarily of rent and entrance fees. Nonoperating revenue is comprised of gain on sale of capital assets. Revenue is recognized as earned. Rents received in advance of recognition are recorded as unearned revenue. Nonoperating expenses consist of losses on disposal or other non-routine write off of capital assets.

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Compensated Absences

Authority employees are granted annual leave in varying amounts depending on tenure. Employees may carry over up to 75 days of annual leave at the end of the calendar year, and will be compensated for unused leave when employees leave the Authority's service. However, an employee whose employment is terminated for unlawful behavior or for gross misconduct may forfeit all unused annual leave and all compensation for unused annual leave. Employees earn 15 days of sick leave per year.

The estimated liability for vested vacation is recorded as a liability and charged to expense.

Accounts Receivable

Accounts receivable are uncollateralized obligations which generally require payment within 30 days from the invoice date. As of June 30, 2018, the Authority considered all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts was recorded.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, entitled “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” which is effective for periods beginning after June 15, 2017. The Authority has implemented this standard for the year end June 30, 2018 and adoption had no impact on the accompanying financial statement. The Authority is still evaluating the impact of this new standard on its financial statements.

In June 2017, GASB issued Statement No. 87, entitled “*Leases*” which is effective for periods beginning after December 15, 2019. The Authority will implement this standard as of its effective date. The Authority is still evaluating the impact of this new standard on its financial statements.

3. CASH AND CASH EQUIVALENTS

Cash on Hand

As of June 30, 2018, petty cash on-hand totaled \$3,000, and gate receipts not yet deposited totaled \$1,542, for total cash on hand of \$4,542.

Deposits

As of June 30, 2018, the carrying amount of the Authority’s deposits was \$8,453,175, and the bank balance was \$8,453,175. The deposits of the Authority were not exposed to custodial credit risk as of June 30, 2018, because the Authority’s deposits are pooled with the State’s funds under the custody of the State Treasurer. Collateral must be at least 102% of the book value and must be delivered to the State Treasurer’s custodian for safekeeping.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

4. CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets is as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Write off/ Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2018</u>
Non-depreciable capital assets					
Land	\$ 1,354,998	\$ -	\$ -	\$ -	\$ 1,354,998
Land held for development	2,227,404	-	-	-	2,227,404
Construction in progress	4,666,145	1,603,752	(4,545)	(3,850)	6,261,502
Total non-depreciable capital assets	<u>8,248,547</u>	<u>1,603,752</u>	<u>(4,545)</u>	<u>(3,850)</u>	<u>9,843,904</u>
Depreciable capital assets					
Buildings and improvements:					
Henry Hein Building and other	1,013,863	-	-	-	1,013,863
Wholesale Produce Market	18,692,683	52,867	-	-	18,745,550
Wholesale Seafood Market	8,949,178	9,625	-	-	8,958,803
Storm Water Management Pond	111,844	97,003	-	-	208,847
Cross Dock	2,493,104	-	-	-	2,493,104
Rock Hall Seafood Plant	1,153,601	5,412	-	-	1,159,013
Total buildings and improvements	<u>32,414,273</u>	<u>164,907</u>	<u>-</u>	<u>-</u>	<u>32,579,180</u>
Equipment - administrative	328,843	-	(4,344)	-	324,499
Equipment - produce and seafood	1,891,018	158,811	(57,624)	3,850	1,996,055
Total depreciable capital assets	<u>34,634,134</u>	<u>323,718</u>	<u>(61,968)</u>	<u>3,850</u>	<u>34,899,734</u>
Accumulated Depreciation					
Buildings and improvements	(17,860,265)	(840,705)	-	-	(18,700,970)
Equipment - administrative	(255,112)	(17,890)	3,949	-	(269,053)
Equipment - produce and seafood	(1,382,569)	(119,695)	57,624	-	(1,444,640)
Total accumulated depreciation	<u>(19,497,946)</u>	<u>(978,290)</u>	<u>61,573</u>	<u>-</u>	<u>(20,414,663)</u>
Total Capital Assets, Net	<u>\$ 23,384,735</u>	<u>\$ 949,180</u>	<u>\$ (4,940)</u>	<u>\$ -</u>	<u>\$ 24,328,975</u>

The Authority owns approximately 14 acres which may be used for future development that is consistent with the Authority's mission. This land is recorded at cost and is included in land held for development.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

5. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	Balance Ending June 30, 2017	Additions	Reductions	Balance Ending June 30, 2018	Amounts Due Within 1 Year
Compensated absences	\$ 166,571	\$ 67,265	\$ (45,650)	\$ 188,186	\$ 150,549
Workers' compensation	39,000	-	-	39,000	7,350
Net pension liability	2,024,355	-	111,061	1,913,294	-
Total	\$ 2,229,926	\$ 67,265	\$ 65,411	\$ 2,140,480	\$ 157,899

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters. The MFCA is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities, and certain employee health benefits. All funds, agencies, and authorities of the State participate in the Self-Insurance Program (the Program). The Program allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency, or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State of Maryland (the State) as a whole and makes provisions for catastrophic losses. For all insurance coverage except workers' compensation, the Authority has no liability for additional claims as of June 30, 2018. As of June 30, 2018, the State allocated a liability for workers' compensation claims to the Authority.

The program creates a total risk and cost sharing pool for all participants. In the event that the risk pool falls into a deficit that cannot be satisfied by transfers from the risk pool's capital and surplus accounts, the risk pool shall determine a method to fund the deficit. The Program could assess an additional premium to each participant, including the Authority. The Authority's management believes that an additional premium to fund a deficit would not be material.

A more complete description of the MFCA's risk management program can be found in the State's Comprehensive Annual Financial Report (CAFR). The CAFR may be obtained by writing to the State Comptroller, P. O. Box 466, Annapolis, Maryland 21404-0466. The Authority's premiums for fiscal years 2018, 2017, and 2016 were \$15,435, \$18,455, and \$19,857, respectively.

7. MINIMUM LEASE RECEIPTS

The Authority owns the Maryland Wholesale Produce Market and the Maryland Market Center that are rented by segregated units to area businesses. Both leases renewed in April 2017. The Authority also owns a parking lot that is rented for tractor trailer parking. This lease renewed in March of 2018. The Authority owns the Rock Hall Clam House, which it leases to local watermen and watermen related industries.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

7. MINIMUM LEASE RECEIPTS (continued)

These leases and license agreements have various end dates.

The minimum future lease receipts, as of June 30, 2018, which the Authority is scheduled to receive were as follows:

<u>Fiscal Years Ending June 30,</u>	
2019	\$ 2,043,777
2020	1,917,393
2021	982,141
2022	1,001,783
Total	\$ 5,945,094

8. RETIREMENT PLAN

Certain employees of the Authority are provided with pensions through the Employees' Retirement System of the State of Maryland (ERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants the authority to establish and amend the benefit terms of ERS to the MSRPS Board of Trustees. MSRPS prepares a separate Comprehensive Annual Financial Report, which is publicly available and can be obtained at www.sra.state.md.us/Agency/Downloads/CAFR/.

Funding Policy

The Authority's required contribution is based upon a percentage of covered payroll based on the State's allocation of its annual cost. The entry age normal cost method is the actuarial cost method used. Both the Authority and covered employees are required by State statute to contribute to the ERS. The employees contribute 7% of compensation, as defined, based on the participant's plan. The Authority made its required contribution during the fiscal year ended June 30, 2018, of \$217,241.

Benefits Provided

A member of the Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

8. RETIREMENT PLANS (continued)

Benefits Provided (continued)

An individual, who is a member of the Employees' Retirement System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62 with specified years of eligibility service or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Employees' Retirement System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Employees' Retirement System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Employees' Retirement System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Employees' Retirement System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Employees' Retirement System.

Exceptions to these benefit formulas apply to members of the Employees' Retirement System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

Early Service Retirement

A member of the Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for the Employees' Retirement System member is 30%.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

8. RETIREMENT PLANS (continued)

Benefits Provided (continued)

Early Service Retirement (continued)

An individual, who is a member of the Employees' Retirement System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Employees' Retirement System is 42%. An individual who becomes a member of the Employees' Retirement System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Employees' Retirement System is 30%.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Contributions

The Article sets contribution requirements of the active employees and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 7% of their annual pay. The Authority's contractually required contribution rate for ERS for the year ended June 30, 2018 was \$217,214, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the Authority reported a liability of \$1,913,294, for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the ERS net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating government units, actuarially determined.

MARYLAND FOOD CENTER AUTHORITY

**Notes to the Financial Statements
June 30, 2018**

8. RETIREMENT PLANS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

As of June 30, 2018, the Authority's proportion for ERS was 0.009 percent, which was substantially the same from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the Authority recognized pension expenses of \$217,241. As of June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to ERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change of assumptions	\$ 61,471	\$ -
Net difference between projected and actual earnings on pension plan investments	263,027	-
Net difference between actual and expected experience	-	129,712
Change in proportion and difference between contributions and proportionate share of contributions	159,192	-
Contributions made subsequent to the measurement date	217,214	-
Total	<u>\$ 700,904</u>	<u>\$ 129,712</u>

As of June 30, 2018, \$217,214 was reported as deferred outflow of resources related to the Authority's contributions subsequent to the measurement date that will be recognized as a reduction of the Authority's net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS will be recognized in pension expense as follows:

<u>Fiscal Years Ending June 30,</u>	
2019	\$ 2,043,777
2020	1,917,393
2021	982,141
2022	1,001,783
Total	<u>\$ 5,945,094</u>

MARYLAND FOOD CENTER AUTHORITY

**Notes to the Financial Statements
June 30, 2018**

8. RETIREMENT PLANS (continued)

Information included in the MSRPS financial statements

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at www.sra.state.md.us/Agency/Downloads/CAFR/.

The key assumptions used to perform the June 30, 2017 pension liability calculation were as follows:

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	In the 2016 actuarial valuations, 2.90% general, 3.20% wage.
	In the 2017 actuarial valuations, 2.65% general, 3.15% wage.
Salary Increase	In the 2016 actuarial valuations, 3.20% to 9.20%, including inflation.
	In the 2017 actuarial valuations, 3.15% to 9.15%, including inflation.
Discount Rate	7.50%
Investment Rate of Return	In the 2016 and 2017 actuarial valuations 7.55% and 7.50% respectively
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate

The Authority’s proportionate share of the ERS net pension liability calculated using the discount rate of 7.50 percent is \$1,913,294. Additionally, the Authority’s proportionate share of the ERS net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) is \$2,787,783 or 1-percentage-point higher (8.50 percent) is \$1,290,795.

9. OTHER POSTEMPLOYMENT BENEFITS

Members of the State Retirement and Pension System of Maryland (the State System) and their dependents are provided postemployment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (the Plan). The Plan is a cost sharing defined benefit healthcare plan established by the State Personnel and Pensions Article, Section 2-501 through 2-516 of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees and their dependents. The State does not distinguish employees by employer/State agency. Instead, the State allocates the postemployment health care costs to all participating employers.

Financial information for the Plan is included in the State of Maryland Comprehensive Annual Financial Report, which can be obtained from the Comptroller of Maryland, Louis L. Goldstein Treasury Building, Annapolis, MD 21404. The report can also be found at the following link: http://finances.marylandtaxes.com/Where_the_Money_Comes_From/General_Revenue_Reports/default.shtml.

MARYLAND FOOD CENTER AUTHORITY

Notes to the Financial Statements June 30, 2018

9. OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Description - The Authority's employees are members of the Plan. For members hired before July 1, 2011, members may enroll and participate in the health benefits options if the retiree ended State service with at least 10 years of creditable service within five years before the age at which a vested retirement allowance would begin or if the retiree ended State service with at least 16 years of creditable service.

For members hired on or after July 1, 2011, they are required to have completed at least 25 years of creditable service, retired directly from State service with at least 10 years of creditable service, or ended State service with at least 10 years of creditable service within five years before the age at which a vested retirement allowance normally would begin.

Funding Policy – The contribution requirements of Plan members are established by the Secretary. The State subsidizes approximately 50% to 85% of covered medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. Costs for the postretirement benefits are for State retirees and primarily funded by the State. The State does not distinguish employees by employer/State agency. The State did not allocate postemployment health care costs to participating employers and as a result did not require a contribution from the Authority. As such, the State has elected to maintain the entire net OPEB liability as a liability of the general fund of the State and has not allocated any balances to State entities including the Authority.

A separate actuarial valuation is not performed by the Authority. The Authority's only obligation to the Plan is its required annual contribution. The Authority contributed \$77,464 to the retirees' postemployment benefits for the fiscal year ended June 30, 2018. As of June 30, 2018, the State of Maryland did not allocate the net postemployment liability and, as such, the Authority is not required to record a liability.

Fiscal Years Ended	Actual Contributions	Required Contributions	Percentage of Required
June 30, 2018	\$ 77,464	\$ 77,464	100%
June 30, 2017	110,952	110,952	100%
June 30, 2016	103,911	103,911	100%
June 30, 2015	74,786	74,786	100%
June 30, 2014	63,102	63,102	100%

10. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code 457. The Plan is offered through the State. The Plan, available to all State employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan is accounted for as an Agency Fund of the State. Investments are managed by the Plan's third-party administrator under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants. The State has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. A more complete description of the State's deferred compensation plans may be found in the State's CAFR.

REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND FOOD CENTER AUTHORITY

Schedule of Proportionate Share of Net Pension Liability June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The Authority's proportion of the ERS net pension liability	0.009%	0.009%	0.008%	0.007%
The Authority's proportionate share of the ERS net pension liability	<u>\$ 1,913,294</u>	<u>\$ 2,024,355</u>	<u>\$ 1,628,063</u>	<u>\$ 1,257,000</u>
Authority's covered-employee payroll	\$ 1,148,799	\$ 1,130,893	\$ 1,089,873	\$ 1,119,467
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	166.55%	179.00%	149.38%	112.29%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	65.79%	68.78%	71.87%

This schedule is presented to illustrate the requirement to show information for 10 years; however, information prior to June 30, 2015, is not available.

Schedule of Pension Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (ERS)	\$ 217,241	\$ 215,601	\$ 180,839	\$ 177,388
Contributions in relation to the contractually required contribution	<u>217,241</u>	<u>215,601</u>	<u>180,839</u>	<u>177,388</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 1,148,799	\$ 1,130,893	\$ 1,089,873	\$ 1,119,467
Contributions as a percentage of covered-employee payroll	18.91%	19.06%	16.59%	15.85%

This schedule is presented to illustrate the requirement to show information for 10 years; however, information prior to June 30, 2015 is not available.

SUPPLEMENTARY INFORMATION

MARYLAND FOOD CENTER AUTHORITY

Combining Schedule of Revenue, Expenses and Change in Net Position For the Year Ended June 30, 2018

	Administrative Operating Accounts	Wholesale Produce Market Operating Accounts	Maryland Market Center Operating Accounts	Capital Improvements	Total
OPERATING REVENUE					
Rental income	\$ 2,111,025	\$ 1,001,625	\$ 587,200	\$ -	\$ 3,699,850
Entrance fees	-	402,855	75,442	-	478,297
Registration	-	7,451	310	-	7,761
Railroad	-	540	-	-	540
Miscellaneous	94,167	8,588	634	-	103,389
Other income	21,545	-	-	-	21,545
Total Operating Revenues	2,226,737	1,421,059	663,586	-	4,311,382
OPERATING EXPENSES					
Salaries, wages, and related costs	749,867	715,898	357,429	-	1,823,194
Contractual services	326,699	432,867	98,575	98,212	956,353
Depreciation	69,503	84,980	34,716	789,091	978,290
Taxes	243,695	-	-	-	243,695
Fuel and utilities	47,260	84,575	101,822	-	233,657
Vehicle operation	3,742	50,096	31,235	-	85,073
Technical and special fees	18,105	16,990	20,163	-	55,258
Travel	55,815	2,455	275	-	58,545
Fixed charges	28,443	8,156	2,975	-	39,574
Communication	17,696	10,808	7,745	-	36,249
Supplies and materials	8,801	13,422	8,237	-	30,460
Maintenance and equipment charges	918	812	414	-	2,144
Total Operating Expenses	1,570,544	1,421,059	663,586	887,303	4,542,492
Operating income (loss)	656,193	-	-	(887,303)	(231,110)
Change in Net Position	\$ 656,193	\$ -	\$ -	\$ (887,303)	\$ (231,110)