



MARYLAND FOOD CENTER AUTHORITY
Jessup, Maryland

FINANCIAL STATEMENTS
June 30, 2008

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Independent Auditor's Report

Board of Directors
Maryland Food Center Authority
Jessup, Maryland

We have audited the accompanying financial statements of the business-type activities of the Maryland Food Center Authority (the Authority), a component unit of the State of Maryland, as of and for the year ended June 30, 2008, which collectively comprise the Maryland Food Center Authority's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Maryland Food Center Authority as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2008, on our consideration of the Maryland Food Center Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Baltimore, Maryland
August 6, 2008

**MARYLAND FOOD CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

Our discussion and analysis of the Maryland Food Center Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2008. Please read it in conjunction with the Authority's basic financial statements, which begin on page 9.

USING THIS ANNUAL REPORT

This annual report consists of a series of proprietary fund financial statements. The Statements of Net Assets, Revenues, Expenses and Changes in Net Assets and Cash Flows provide information about the activities of the Authority as a whole, and begin on page 9.

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 off or worse off as a result of the year's activities?" The Statements of Net Assets, Revenues, Expenses and Changes in Net Assets and 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 revenues and expenses are taken into account regardless of when cash is received or paid.

You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. The Authority's activities are only 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 will need to 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 distributions facilities, and interest of food businesses looking to move into the Maryland Food Center.

**MARYLAND FOOD CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

The following table provides comparative data as of June 30, 2008 and for the year then ended.

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
ASSETS			
Current assets	\$ 2,884,541	\$ 3,272,827	\$ (471,064)
Net capital assets	20,823,030	19,816,082	1,006,948
Note receivable - land covenant, net of allowance	<u>439,270</u>	<u>493,534</u>	<u>(54,264)</u>
TOTAL ASSETS	<u>\$24,146,841</u>	<u>\$23,582,443</u>	<u>\$ 564,398</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Current liabilities	\$ 576,459	\$ 637,081	\$ (60,622)
Non-current liabilities	<u>51,774</u>	<u>50,294</u>	<u>1,480</u>
Total liabilities	<u>628,233</u>	<u>687,375</u>	<u>(59,142)</u>
Net Assets			
Invested in capital assets, net of related debt	20,823,030	19,816,082	1,006,948
Restricted for capital improvements	289,795	250,513	39,282
Unrestricted	<u>2,405,783</u>	<u>2,828,473</u>	<u>(422,690)</u>
Total net assets	<u>23,518,608</u>	<u>22,895,068</u>	<u>623,540</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$24,146,841</u>	<u>\$23,582,443</u>	<u>\$ 564,398</u>

The decrease of \$471,064 in current assets is primarily attributable to a decrease in cash and cash equivalents of \$431,782.

The decrease of \$60,622 in current liabilities is primarily due to a decrease in deferred income.

**MARYLAND FOOD CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Assets

The following table provides comparative data, when available, as of June 30, 2008 and for the year then ended.

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Total operating revenues	\$ 4,313,608	\$ 4,212,918	\$ 100,690
Total operating expenses	<u>4,166,054</u>	<u>3,880,464</u>	<u>285,592</u>
Net revenue (expense)	147,554	332,454	(184,902)
Interest and investment earnings	<u>475,986</u>	<u>393,773</u>	<u>82,213</u>
Change in net assets	<u>623,540</u>	<u>726,227</u>	<u>(102,689)</u>
Net assets, beginning of year	<u>22,895,068</u>	<u>22,168,841</u>	<u>726,227</u>
Net assets, end of year	<u>\$23,518,608</u>	<u>\$22,895,068</u>	<u>\$ 623,538</u>
Total revenues	\$ 4,789,594	\$ 4,606,691	\$ 182,903
Total expenses	<u>4,166,054</u>	<u>3,880,464</u>	<u>285,592</u>
Total	<u>\$ 623,540</u>	<u>\$ 726,227</u>	<u>\$ (102,689)</u>

The net income from operations was \$147,554 and interest and investment earnings were \$475,986.

During 2008, operating revenues increased by \$100,690. This increase was due to an increase in rental income. Interest and investment earnings increased by \$82,213 due to a larger daily cash balance. Operating expenses increased by \$285,592. The increase in net assets from \$22,895,068 to \$23,518,608 or \$623,540 was attributable to revenue from charges for services and interest and investment earnings.

Overall, the Authority's financial position improved during the year ended June 30, 2008.

**MARYLAND FOOD CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

BUDGETARY HIGHLIGHTS

The Authority does not budget for revenues. Excluding depreciation and taxes, the Authority had a negative variance of \$318,148 when actual expenses are compared to budgeted expenses. In 2008, the Authority continued to exercise strong budgetary controls.

Refer to the following table for comparative data.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Expenses				
Salaries, wages and related costs	\$ 1,959,382	\$ 1,845,989	\$ 1,483,661	\$ 362,328
Contractual services	927,240	927,240	1,117,599	(190,359)
Depreciation	731,627	731,627	701,818	29,809
Taxes	234,262	234,262	219,077	15,185
Fuel and utilities	272,840	272,840	308,607	(35,767)
Vehicle operation	161,593	181,124	84,931	96,193
Travel	96,300	96,300	21,899	74,401
Fixed charges	50,788	50,788	83,632	(32,844)
Communication	56,960	56,960	47,623	9,337
Technical and special fees	20,966	20,966	32,378	(11,412)
Supplies and materials	51,200	51,200	45,026	6,174
Maintenance and equipment charges	59,900	59,900	19,803	40,097
Total operating expenses	<u>\$ 4,623,058</u>	<u>\$ 4,529,196</u>	<u>\$ 4,166,054</u>	<u>\$ 363,142</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the Authority had \$20,823,030 invested in capital assets, net of accumulated depreciation. This represents an increase of \$1,006,948 from the prior year with the change due to \$1,873,196 in capital asset additions, net of disposals, and \$701,818 in depreciation expense.

Major additions to capital assets include:

Produce Paving Project \$1,643,730

Debt

At June 30, 2008, the Authority had no long-term debt outstanding.

**MARYLAND FOOD CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Seafood Market

The Seafood Market lease will provide a 3% increase in fiscal year 2009 through December 31, 2009. As of January 1, 2010, new leases are expected to be issued for all units at the Seafood Market providing for at least a 3% increase per fiscal year.

Truck Parking Lot

All spaces in the Truck Parking Lot are expected to be rented in fiscal year 2009.

Produce Market

The Produce Market (the Market) lease will expire on December 31, 2008. As a result of renovations at the Market, the current lease will be extended for one year. Beginning January 1, 2009, the rent will increase by at least 3%. The Market is expected to be fully occupied with the exception of five units. These five units will remain empty so that the Authority can move tenants during the renovation process. Currently, an existing tenant is enclosing several units which will provide a prototype for enclosing the remainder of the Market in the future.

Rock Hall

The Authority currently leases the Rock Hall Seafood Processing Plant (the Plant) to the Town of Rock Hall (the Town). Any restorations made to restore the plant will be at the expense of the Town. The base rent due to the Authority for the lease is \$1.00 per month. For the first five years, the Authority will receive 20% of the revenue received by the Town of Rock Hall for any sublease. Thereafter, the Authority will receive 50% of the revenue received by the Town of Rock Hall for any sublease. As of June 30, 2008, the Town of Rock Hall has completed electrical restorations to the Plant and the Town is actively negotiating leases for the building.

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, contact the Authority's Deputy Director at 7801 Oceano Avenue, Jessup, Maryland 20794.

BASIC FINANCIAL STATEMENTS

MARYLAND FOOD CENTER AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	
Unrestricted	\$ 2,485,255
Restricted for capital improvements and maintenance - Seafood Market	289,795
Accounts receivable	85,508
Prepaid expenses	<u>23,983</u>
Total current assets	<u>2,884,541</u>

NONCURRENT ASSETS

Note receivable - land covenant, net of allowance of \$150,000	439,270
Capital assets, net of accumulated depreciation	<u>20,823,030</u>
Total noncurrent assets	<u>21,262,300</u>

TOTAL ASSETS

\$ 24,146,841

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 126,240
Accrued payroll and related taxes	50,925
Deferred income	86,600
Accrued compensated absences	78,374
Accrued workers' compensation	6,820
Tenant deposits	<u>227,500</u>
Total current liabilities	<u>576,459</u>

NONCURRENT LIABILITIES

Accrued compensated absences	19,594
Accrued workers' compensation	<u>32,180</u>
Total noncurrent liabilities	<u>51,774</u>

 Total liabilities

628,233

NET ASSETS

Invested in capital assets, net of related debt	20,823,030
Restricted for capital improvements	289,795
Unrestricted	<u>2,405,783</u>
Total net assets	<u>23,518,608</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 24,146,841

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

MARYLAND FOOD CENTER AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

OPERATING REVENUES	
Charges for services	<u>\$ 4,313,608</u>
OPERATING EXPENSES	
Salaries, wages and related costs	1,483,661
Contractual services	1,117,599
Depreciation	701,818
Taxes	219,077
Fuel and utilities	308,607
Vehicle operation	84,931
Technical and special fees	21,899
Travel	83,632
Fixed charges	47,623
Communication	32,378
Supplies and materials	45,026
Maintenance and equipment charges	<u>19,803</u>
Total operating expenses	<u>4,166,054</u>
OPERATING INCOME	<u>147,554</u>
NONOPERATING REVENUES	
Interest and investment revenue	<u>475,986</u>
CHANGE IN NET ASSETS	623,540
NET ASSETS, BEGINNING OF YEAR	<u>22,895,068</u>
NET ASSETS, END OF YEAR	<u>\$ 23,518,608</u>

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

**MARYLAND FOOD CENTER AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,276,034
Payments to suppliers	(1,812,118)
Payments to employees	<u>(1,552,752)</u>
Net cash provided by operating activities	<u>911,164</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal payments received on notes receivable	100,000
Interest received	<u>430,250</u>
Net cash provided by investing activities	<u>530,250</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	<u>(1,873,196)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(431,782)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,206,832</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,775,050</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 147,554
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	701,818
Loss on disposal of assets	164,430
Effects of changes in operating assets and liabilities:	
Accounts receivable	(37,574)
Prepaid expenses	(5,922)
Accounts payable	974
Accrued payroll and related taxes	7,147
Deferred revenue	(74,657)
Accrued compensated absences	<u>7,394</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 911,164</u>

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

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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, redeveloped, and leases to the Town of Rock Hall the Rock Hall Seafood Processing Plant in Rock Hall, Maryland. 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. Significant accounting policies followed by the Authority are presented below.

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. The fund category for the Authority is:

Proprietary Fund

In June 1999, the Governmental Accounting Standards Board (GASB) approved GASB Statement No. 34, entitled *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.

GASB Statement No. 34 identified three types of special-purpose governments (SPG): (1) those engaged only in governmental activities, (2) those engaged only in business-type activities, and (3) those engaged in both governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities, on the other hand, are financed in whole or part by fees charged to external parties for goods and services. Given the importance of rental income, the Authority adopted the financial reporting model required of SPGs engaged in business-type activities (BTA). The Authority follows GASB standards applicable to proprietary (enterprise) funds.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund (continued)

The BTA model requires the following financial statement components:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenue, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

In accordance with GASB Statement No. 20, entitled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and as amended by GASB Statement No. 29, entitled *The Use of Not-for Profit Accounting and Financial Reporting Principles by Governmental Entities*, the Authority has elected not to implement FASB pronouncements issued after November 30, 1989 for any proprietary fund type activity.

Basis of Accounting

The Authority is required only to present financial statements required for proprietary funds and not government-wide financial statements. The accrual basis of accounting is used in proprietary funds. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions enabling legislation.

Revenues

Program and operating revenues consist primarily of rent and entrance fees. Non-operating revenues are comprised primarily of interest and investment earnings and revenues related to the land covenant agreement.

Restricted Resources

It is the Authority's policy to apply restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted net assets are available.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Authority's cash and cash equivalents are pooled with the State's funds and are under the custody of the State's Comptroller of the Treasury. Cash equivalents are considered to be investments that are both: (a) short-term, highly liquid investments which are readily convertible to known amounts of cash; and (b) so near to maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments included in cash equivalents include, Treasury bills and government certificates with original maturities of less than three months when acquired. Cash in the amount of \$289,795 has been restricted for repairs and maintenance of the Seafood Market as of June 30, 2008.

Capital Assets and Depreciation

The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings - 15 to 50 years; improvements/infrastructure - 10 to 40 years; equipment - 5 to 10 years.

Interest Expense

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 62.5 days of annual leave at the end of the calendar year, and may be compensated for unused leave when employees leave the Authority's service. 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

The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

GASB issued Statement No. 43, entitled *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, entitled *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Authority is analyzing the effects and applicability of these pronouncements and plans to adopt them as applicable by their effective dates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash on Hand

At year-end, petty cash on hand totaled \$3,000.

Deposits

At year-end, the carrying amount of the Authority's deposits was \$2,772,050 and the bank balance was \$2,725,445. The deposits of the Authority were not exposed to custodial credit risk at June 30, 2008. 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.

Investments

Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following: (1) any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest, (2) any obligation that a United States agency issues in accordance with an act of Congress, (3) repurchase agreements that any of the above obligations secure, (4) bankers acceptances, (5) money market funds and (6) commercial paper. The State invests the Authority's deposits primarily in short-term repurchase agreements. The Authority had no such investments at June 30, 2008.

Cash on hand	\$ 3,000
Carrying amount of deposit	<u>2,772,050</u>
Total cash and investments per Statement of Net Assets	<u>\$ 2,775,050</u>

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Authority's exposure to fair value losses arising from increasing interest rates, the State's investment policy limits the term of investment maturities. At June 30, 2008, the Authority's investments were limited to the repurchase agreements. Authority management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Authority from having to sell investments below original cost for that purpose. The investments at June 30, 2008, met the Authority's investment policy as of that date.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Investment Rate Risk (continued)

Investment income includes the following for the year ended June 30, 2008.

Net interest and dividends \$ 475,986

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets is as follows.

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2008</u>
Non-depreciable Capital Assets					
Land	\$ 1,882,342	\$ -	\$ -	\$ -	\$ 1,882,342
Land held for development	3,220,843	-	-	-	3,220,843
Construction in progress	<u>249,628</u>	<u>161,145</u>	<u>(143,077)</u>	<u>(1,260)</u>	<u>266,436</u>
Total non-depreciable capital assets	<u>5,352,813</u>	<u>161,145</u>	<u>(143,077)</u>	<u>(1,260)</u>	<u>5,369,621</u>
Depreciable Capital Assets					
Buildings and improvements:					
Henry Hein Building and other	958,242	-	(6,577)	-	951,665
Wholesale Produce Market	13,466,464	1,671,290	-	1,260	15,139,014
Wholesale Seafood Market	7,016,448	17,520	-	-	7,033,968
Storm Water Management Pond	22,144	-	-	-	22,144
Cross Dock	2,478,259	7,492	-	-	2,485,751
Rock Hall Seafood Plant	<u>688,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>688,919</u>
Total buildings and improvements	24,630,476	1,696,302	(6,577)	1,260	26,321,461
Equipment – administrative	296,775	15,749	(19,983)	-	292,541
Equipment - produce and seafood	<u>881,344</u>	<u>-</u>	<u>(42,030)</u>	<u>-</u>	<u>839,314</u>
Total depreciable capital assets	<u>25,808,595</u>	<u>1,712,051</u>	<u>(68,590)</u>	<u>1,260</u>	<u>27,453,316</u>
Less Accumulated Depreciation					
Building and improvements	(10,769,528)	(586,247)	384	-	(11,355,392)
Equipment – administrative	(168,042)	(23,424)	17,786	-	(173,679)
Equipment - produce and seafood	<u>(407,756)</u>	<u>(92,147)</u>	<u>29,070</u>	<u>-</u>	<u>(470,833)</u>
Total accumulated depreciation	<u>(11,345,326)</u>	<u>\$ (701,818)</u>	<u>\$ 47,240</u>	<u>\$ -</u>	<u>(11,999,904)</u>
Total capital assets, net	<u>\$ 19,816,082</u>				<u>\$ 20,823,030</u>

The Authority owns approximately 38 acres which may be used for future development consistent with the Authority's mission. This land is valued at cost.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	Balance Ending June 30, 2007	Additions	Reductions	Balance Ending June 30, 2008	Amounts Due Within 1 Year
Compensated absences	\$ 90,574	\$ 65,290	\$ (57,896)	\$ 97,968	\$ 78,374
Workers' compensation	39,000	-	-	39,000	6,820
Total	<u>\$ 129,574</u>	<u>\$ 65,290</u>	<u>\$ (57,896)</u>	<u>\$ 136,968</u>	<u>\$ 85,194</u>

NOTE 5 – RESERVE FOR CAPITAL IMPROVEMENTS AND MAINTENANCE

Pursuant to lease agreements with the produce and seafood market tenants, the Authority is required to establish a reserve account for capital improvements and maintenance in the amount of \$335,000 annually. As of June 30, 2008, the capital improvements and maintenance reserve for the Produce Market and Seafood Market had a balance of \$(1,693,565) and \$289,795, respectively. The following balance is a restricted portion of net assets.

	Balance June 30, 2007	Additions	Capital Improvements and Maintenance	Balance June 30, 2008
Produce Market	\$ (196,625)	\$ 230,000	\$ 1,726,939	\$ (1,693,565)
Seafood Market	250,513	105,000	65,718	289,795

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters. The State 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 as a whole and makes provisions for catastrophic losses.

This is 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 State's risk management program may 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 2008, 2007 and 2006 are \$16,738, \$24,133, and \$14,395, respectively.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 – MINIMUM LEASE RECEIPTS

The minimum future lease receipts which the Authority is scheduled to receive are as follows:

<u>Year Ended June 30,</u>	
2009	\$ 1,511,945
2010	495,028
2011	<u>144,664</u>
Total	<u>\$ 2,151,637</u>

The produce market leases have been extended through December 31, 2008. The Seafood Market leases end December 31, 2009.

The following assets have been leased to customers of the Authority:

Wholesale Produce Market	\$ 15,139,014
Wholesale Seafood Market	7,033,968
Cross Dock	2,485,751
Rock Hall Seafood Plant	<u>688,919</u>
Cost of leased assets	25,347,652
Less: accumulated depreciation	<u>(10,223,874)</u>
Carrying amount of leased assets	<u>\$15,123,778</u>

NOTE 8 – RETIREMENT PLAN

Generally, all regular Authority employees participate in the Maryland State Employees Retirement and Pension Systems (Systems), a cost sharing multiple-employer defined benefit plan sponsored and administered by the State Retirement and Pension System of Maryland. The Systems were created by the Maryland General Assembly. As of June 30, 2008, all Authority employees are enrolled in the Employees Pension System and not the Employees Retirement System. The Authority's total current-year payroll for all employees was \$1,068,409. The payroll of employees covered by the Maryland State Retirement and Pension Systems was \$1,068,409.

Plan Description and Contribution Information

Cost Sharing Multiple-Employer Plan:

The Systems provide retirement, disability, and death benefits to participants and their beneficiaries. The State Retirement and Pension System of Maryland issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to the State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21201.

MARYLAND FOOD CENTER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 – RETIREMENT PLAN (CONTINUED)

Authority employees are required to contribute 4% of their salaries annually for fiscal year ending June 30, 2008, and 3% of their salaries annually for fiscal years ending June 30, 2007 and 2006. The Authority's contributions to the System for the fiscal years ending June 30, 2008, 2007 and 2006, exclusive of contributions made directly by the State of Maryland, were \$95,409, \$71,270, and \$65,491, respectively. The percentage of required contributions for the Authority for fiscal years ending June 30, 2008, 2007 and 2006 was 8.84%, 6.83% and 5.76%, respectively.

	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Actual as a Percentage of Required</u>
Fiscal Year Ending, June 30, 2008	\$ 95,409	\$ 94,447	101.02%
Fiscal Year Ending, June 30, 2007	71,270	71,350	99.89%
Fiscal Year Ending, June 30, 2006	65,491	65,234	100.39%

NOTE 9 – POSTEMPLOYMENT BENEFITS

The Authority, in conjunction with the State's personnel management system provides postemployment health care benefits to retired employees and their dependents. The State subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment health care benefits which is based on health care insurance charges for current employees. A more complete description of the State's post-employment benefits may be found in the State's Comprehensive Annual Financial Report (CAFR). The Authority was not required to contribute to the retirees' postemployment benefits for the fiscal year ending June 30, 2008.

NOTE 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 Comprehensive Annual Financial Report (CAFR).

Grants

The Authority receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Authority is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Authority's management, no material refund will be required as a result of disallowed expenditures, if any.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

**MARYLAND FOOD CENTER AUTHORITY
SCHEDULE OF EXPENSES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
OPERATING EXPENSES				
Salaries, wages and related costs	\$ 1,959,382	\$ 1,845,989	\$ 1,483,661	\$ 362,328
Contractual services	927,240	927,240	1,117,599	(190,359)
Depreciation	731,627	731,627	701,818	29,809
Taxes	234,262	234,262	219,077	15,185
Fuel and utilities	272,840	272,840	308,607	(35,767)
Vehicle operation	161,593	181,124	84,931	96,193
Travel	96,300	96,300	83,632	12,668
Fixed charges	50,788	50,788	47,623	3,165
Communication	56,960	56,960	32,378	24,582
Technical and special fees	20,966	20,966	21,899	(933)
Supplies and materials	51,200	51,200	45,026	6,174
Maintenance and equipment charges	59,900	59,900	19,803	40,097
TOTAL OPERATING EXPENSES	\$ 4,623,058	\$ 4,529,196	\$ 4,166,054	\$ 363,142

MARYLAND FOOD CENTER AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2008

	Administrative Operating Accounts	Wholesale Produce Market Operating Accounts	Wholesale Seafood Market Operating Accounts	Capital Improvements	Total
OPERATING REVENUE					
Rental income	\$ 2,215,524	\$ 828,283	\$ 792,815	\$ -	\$ 3,836,622
Entrance fees	-	316,390	101,695	-	418,085
Registration	-	18,300	11,654	-	29,954
Railroad	-	14,850	-	-	14,850
Pallet sales	-	6,989	7,108	-	14,097
Total operating revenue	<u>2,215,524</u>	<u>1,184,812</u>	<u>913,272</u>	<u>-</u>	<u>4,313,608</u>
OPERATING EXPENSES					
Salaries, wages and related costs	641,949	504,463	337,249	-	1,483,661
Contractual services	182,418	387,433	308,236	239,512	1,117,599
Depreciation	68,890	65,248	33,533	534,147	701,818
Taxes	219,077	-	-	-	219,077
Fuel and utilities	18,251	105,726	184,630	-	308,607
Vehicle operation	3,811	54,290	26,830	-	84,931
Technical and special fees	17,195	4,305	399	-	21,899
Travel	81,237	2,241	154	-	83,632
Fixed charges	32,606	10,786	4,231	-	47,623
Communication	16,742	9,386	6,250	-	32,378
Supplies and materials	9,553	25,804	9,669	-	45,026
Equipment charges	2,582	15,130	2,091	-	19,803
Total operating expenses	<u>1,294,311</u>	<u>1,184,812</u>	<u>913,272</u>	<u>773,659</u>	<u>4,166,054</u>
Operating income (loss)	<u>921,213</u>	<u>-</u>	<u>-</u>	<u>(773,659)</u>	<u>147,554</u>
NONOPERATING REVENUE					
Interest and investment	<u>475,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,986</u>
CHANGE IN NET ASSETS	<u>\$ 1,397,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (773,659)</u>	<u>\$ 623,540</u>

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Maryland Food Center Authority
Jessup, Maryland

We have audited the financial statements of Maryland Food Center Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated August 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maryland Food Center Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maryland Food Center Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
August 6, 2008