MARYLAND FOOD CENTER AUTHORITY
Jessup, Maryland

FINANCIAL STATEMENTS
June 30, 2012

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Directors
Maryland Food Center Authority
Jessup, Maryland

We have audited the accompanying basic financial statements of Maryland Food Center Authority (the Authority), a component unit of the State of Maryland, as of and for the year ended June 30, 2012, 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 financial position of the Authority as of June 30, 2012, and the 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 21, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the accompanying 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.

CliftonLarsonAllen LLP

Baltimore, Maryland
August 21, 2012

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, 2012. Please read it in conjunction with the Authority's basic financial statements, which begin on page 8.

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 8.

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.

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

The following table provides comparative data as of June 30, 2012 and 2011, and for the years then ended.

	2012	2011	Increase (Decrease)
ASSETS			
Current assets	$ 3,468,460	$ 3,747,027	$ (278,567)
Net capital assets	22,377,981	21,606,097	771,884
Note receivable - land covenant	179,629	266,437	(86,808)
Total assets	$ 26,026,070	$ 25,619,561	$ 406,509
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities	$ 708,291	$ 619,036	$ 89,255
Non-current liabilities	50,955	53,541	(2,586)
Total liabilities	759,246	672,577	86,669
Net assets:			
Invested in capital assets	22,377,981	21,606,097	771,884
Unrestricted	2,888,843	3,340,887	(452,044)
Total net assets	25,266,824	24,946,984	319,840
Total liabilities and net assets	$ 26,026,070	$ 25,619,561	$ 406,509

The decrease of $278,567 in current assets is primarily attributable to a $192,794 decrease in cash and cash equivalents and to a $74,904 decrease in accounts receivable. This decrease is attributable to a 27% increase in capital improvement expenditures.

The increase of $89,255 in current liabilities is primarily due to a significant fiscal year 2012 capital improvement project invoice received after June 30, 2012 and an increase in accounts payable of $95,361.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Assets

The following table provides comparative data, as of June 30, 2012 and 2011, and for the years then ended.

	2012	2011	Increase (Decrease)
Total operating revenues	$ 4,614,913	$ 4,472,186	$ 142,727
Total operating expenses	4,325,139	4,185,752	139,387
Operating income	289,774	286,434	3,340
Nonoperating revenues	39,226	60,579	(21,353)
Nonoperating expenses	9,160	38,963	(29,803)
Change in net assets	319,840	308,050	11,790
Net assets, beginning of year	24,946,984	24,638,934	308,050
Net asset, end of year	$ 25,266,824	$ 24,946,984	$ 319,840
Total revenues	$ 4,654,139	$ 4,532,765	$ 121,374
Total expenses	4,334,299	4,224,715	109,584
Total	$ 319,840	$ 308,050	$ 11,790

The net income from operations was $289,774 and interest and investment earnings were $39,226.

During 2012, operating revenues increased by $142,727. This increase was due primarily to an increase in additional rental income, which is a product of cost control measures employed by the Authority. Additional rental income is correlated to the total market expenses. An increase in additional rent income indicates an increase in total market expenses. Operating expenses increased by $139,387. This increase is attributable to the mandatory temporary shut-down of all composting facilities in the State of Maryland that accept food waste. Tonnage cost for composting waste versus dumping the waste at the landfill is approximately 40% less. Once regulations are established by the State of Maryland, and the composting facilities reopen, MFCA will resume its composting program and reduce the cost of waste disposal. The increase in net assets from $24,946,984 to $25,266,824, or $319,840, was attributable to an increase in capital assets.

Overall, the Authority's financial position improved during the year ended June 30, 2012.

BUDGETARY HIGHLIGHTS

The Authority does not budget for revenues. The Authority had a positive variance of $600,673 when actual expenses are compared to budgeted expenses. In 2012, the Authority continued to exercise strong budgetary controls.

Refer to the following table for comparative data.

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Operating expenses				
Salaries, wages and related costs	$ 1,872,062	$ 1,915,700	$ 1,529,989	$ 385,711
Contractual services	924,366	914,366	937,240	(22,874)
Depreciation	852,057	852,057	705,999	146,058
Taxes	236,462	236,462	220,300	16,162
Fuel and utilities	345,550	343,250	361,050	(17,800)
Vehicle operation	242,274	241,274	200,216	41,058
Technical and special fees	87,573	85,572	113,141	(27,569)
Travel	111,900	111,900	89,602	22,298
Fixed charges	49,371	38,371	50,037	(11,666)
Communication	42,110	39,410	36,158	3,252
Supplies and materials	84,350	83,850	71,730	12,120
Maintenance and equipment charges	63,600	63,600	9,677	53,923
Total operating expenses	$ 4,911,675	$ 4,925,812	$ 4,325,139	$ 600,673

The variance for salaries, wages and related costs is attributable to vacant positions and actual employee and retiree health benefit costs that were significantly lower than the State's budget preparation instructions. The variance for depreciation is attributable to deferred depreciable capital improvement projects. The variance for maintenance and equipment charges is attributable to the Authority accounting for anticipated fixed asset purchases as an expense on the budget. In FY 12, the Authority purchased a copier for $26,759. The FY 12 budget includes $26,759 in maintenance and equipment charges; however, the financial statements include $0 since this amount is recorded as a fixed asset on the balance sheet.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the Authority had $22,377,981 invested in capital assets, net of accumulated depreciation. This represents an increase of $771,884 from the prior year, with the change due to the combination of $1,583,238 in capital asset additions and $802,194 in depreciation expense.

Major additions (those greater than $50,000) to capital assets include:

Security cameras - Produce	$ 200,117
Security cameras - Seafood	89,339
Roof replacement	803,728
Total	$ 1,093,184

Debt

At June 30, 2012, the Authority had no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Seafood Market

The Seafood Market leases end June 30, 2015.

Truck Parking Lot

All spaces in the Truck Parking Lot are rented through February 28, 2013.

Produce Market

The Produce Market leases will expire on June 30, 2016.

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, 2012

ASSETS

CURRENT ASSETS	
Cash and cash equivalents - unrestricted	$ 3,253,261
Accounts receivable	112,401
Note receivable - current portion, land covenant	100,000
Prepaid expenses	2,798
Total current assets	3,468,460
NONCURRENT ASSETS	
Note receivable - land covenant	179,629
Non-depreciable capital assets	5,962,149
Depreciable capital assets, net of accumulated depreciation	16,415,832
Total noncurrent assets	22,557,610
TOTAL ASSETS	$ 26,026,070

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 271,349
Accrued payroll and related taxes	76,958
Deferred income	52,660
Accrued compensated absences, current portion	73,423
Accrued workers' compensation, current portion	6,401
Tenant deposits	227,500
Total current liabilities	708,291
NONCURRENT LIABILITIES	
Accrued compensated absences	18,356
Accrued workers' compensation	32,599
Total noncurrent liabilities	50,955
Total liabilities	759,246
NET ASSETS	
Invested in capital assets	22,377,981
Unrestricted	2,888,843
Total net assets	25,266,824
TOTAL LIABILITIES AND NET ASSETS	$ 26,026,070

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, 2012

OPERATING REVENUES	
Charges for services	$ 4,614,913
OPERATING EXPENSES	
Salaries, wages and related costs	1,529,989
Contractual services	937,240
Depreciation	802,194
Taxes	220,300
Fuel and utilities	361,050
Vehicle operation	104,021
Technical and special fees	113,141
Travel	89,602
Fixed charges	50,037
Communication	36,158
Supplies and materials	71,730
Maintenance and equipment charges	9,677
Total operating expenses	4,325,139
OPERATING INCOME	289,774
NONOPERATING REVENUES	
Interest and investment revenue	39,226
NONOPERATING EXPENSES	
Canceled project costs	9,160
Total nonoperating expenses	9,160
CHANGE IN NET ASSETS	319,840
NET ASSETS, BEGINNING OF YEAR	24,946,984
NET ASSETS, END OF YEAR	$ 25,266,824

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

MARYLAND FOOD CENTER AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 4,676,625
Payments to suppliers	(1,796,599)
Payments to employees	(1,628,808)
Net cash provided by operating activities	1,251,218
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal payments received on notes receivable	100,000
Interest received	39,226
Net cash provided by investing activities	139,226
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(1,583,238)
Net cash used in financing activities	(1,583,238)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(192,794)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,446,055
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,253,261
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 289,774
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	802,194
Discount on note receivable	(13,192)
Effects of changes in operating assets and liabilities:	
Accounts receivable	74,904
Prepaid expenses	10,869
Accounts payable	95,361
Accrued payroll and related taxes	5,811
Deferred revenue	(4,475)
Tenant deposits	5,000
Accrued compensated absences	(15,028)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,251,218

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

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, and redeveloped, the Rock Hall Seafood Processing Plant in Rock Hall, Maryland, which it leases to the Town of Rock Hall. 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 Authority operates one 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

In accordance with GASB Statement No. 34, entitled *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, 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

Beginning with fiscal year 2011, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable form (such as capital assets) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the Authority itself, using its highest level of decision-making authority (i.e., board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the Authority takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the Authority intends to use for a specific purpose. Intent can be expressed by the board of directors or by an official or body to which the board of directors delegates the Authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The board of directors establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the board of directors through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Revenue is recognized as earned. Rents received in advance of recognition are recorded as deferred revenues.

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.

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 Treasurer's Office. 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.

Capital Assets and Depreciation

Capital expenditures greater than $1,000 with an estimated useful life greater than one year are capitalized. The valuation basis for general capital assets is 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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are uncollateralized obligations which generally require payment within 30 days from the invoice date. The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. Accounts receivable are considered delinquent after 30 days, at which point the Authority will contact the party to discuss collection. Accounts receivable delinquent for greater than six months are turned over to the State of Maryland for further collection efforts. If amounts become uncollectible, they will be charged to operations when that determination is made.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash on Hand

At year-end, petty cash on-hand totaled $3,000 and gate receipts not yet deposited totaled $8,693, for total cash on hand of $11,693.

Deposits

At year-end, the carrying amount of the Authority's deposits was $3,241,568 and the bank balance was $3,206,632. The deposits of the Authority were not exposed to custodial credit risk at June 30, 2012. 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.

Cash Equivalents

Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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, 2012.

Cash on hand	$ 11,693
Carrying amount of deposits	3,241,568
Total cash and cash equivalents per Statement of Net Assets	$ 3,253,261

Non-operating revenues include the following for the year ended June 30, 2012:

Net interest and dividends	$ 39,226

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets is as follows:

	Balance June 30, 2011	Additions	Disposals	Transfers	Balance June 30, 2012
Non-depreciable capital assets					
Land	$ 1,882,342	$ -	$ -	$ -	$ 1,882,342
Land held for development	3,220,843	-	-	-	3,220,843
Construction in progress	464,970	666,548	(9,160)	(263,394)	858,964
Total non-depreciable capital assets	5,568,155	666,548	(9,160)	(263,394)	5,962,149
Depreciable capital assets					
Buildings and improvements:					
Henry Hein Building and other	1,005,886	46,988	-	-	1,052,874
Wholesale Produce Market	16,503,654	803,729	-	-	17,307,383
Wholesale Seafood Market	8,121,972	1,260	-	-	8,123,232
Storm Water Management Pond	22,144	-	-	-	22,144
Cross Dock	2,490,701	-	-	-	2,490,701
Rock Hall Seafood Plant	688,919	-	-	-	688,919
Total buildings and improvements	28,833,276	851,977	-	-	29,685,253
Equipment - administrative	286,125	28,907	-	-	315,032
Equipment - produce and seafood	1,177,065	35,804	-	263,394	1,476,263
Total depreciable capital assets	30,296,466	916,688	-	263,394	31,476,548
Accumulated Depreciation					
Building and improvements	(13,362,350)	(682,603)	-	-	(14,044,953)
Equipment - administrative	(184,243)	(26,262)	-	-	(210,505)
Equipment - produce and seafood	(711,931)	(93,329)	-	-	(805,260)
Total accumulated depreciation	(14,258,524)	(802,194)	-	-	(15,060,718)
Total capital assets, net	$ 21,606,097	$ 781,042	$ (9,160)	$ -	$ 22,377,979

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, and is included in land held for development.

NOTE 4 – NOTE RECEIVABLE

On January 25, 2005, Atlantic Realty Companies, Inc. (Atlantic) signed a note payable to the Authority in the amount of $1,000,000, payable in 10 payments of $100,000 over 10 years. The note was provided to the Authority in exchange for an Approval Agreement, in which the Authority approved the designated use of a parcel of land currently owned by Atlantic.

This parcel of land had previously been owned by the Authority. The land is subject to protective covenants that restrict the use of the land to certain activities that promote the Authority's mission. These covenants shall remain in effect until January 3, 2020.

NOTE 4 – NOTE RECEIVABLE (CONTINUED)

This note is carried at the present value of the remaining payments, calculated using the current 10-year Treasury bill rate of 3.6%. The balance of the note at June 30, 2012 was $279,629.

NOTE 5 – LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2012 are as follows:

	Balance Ending June 30, 2011	Additions	Reductions	Balance Ending June 30, 2012	Amounts Due Within 1 Year
Compensated absences	$ 106,807	$ 67,869	$ (82,897)	$ 91,779	$ 73,423
Workers' compensation	39,000	-	-	39,000	6,401
Total	$ 145,807	$ 67,869	$ (82,897)	$ 130,779	$ 79,824

NOTE 6 – RESERVE FOR CAPITAL IMPROVEMENTS AND MAINTENANCE

Pursuant to lease agreements with the produce and seafood market tenants, the Authority is required to establish and maintain a reserve account for capital improvements and maintenance in the amount of $335,000 annually. As of June 30, 2012, the capital improvements and maintenance reserve for the Produce Market and Seafood Market had a balance of ($3,499,707) and ($1,261,995), respectively. The following balance is a restricted portion of net assets.

	Balance Ending June 30, 2011	Additions	Capital Improvements and Reductions	Balance Ending June 30, 2012*
Produce Market	$ (2,878,097)	$ 230,000	$ 851,610	$ (3,499,707)
Seafood Market	(718,901)	105,000	648,094	(1,261,995)

* A negative balance signifies that there are no restrictions on the cash received from a market. A negative balance does not constitute a liability for the Authority.

NOTE 7 – 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.

NOTE 7 – RISK MANAGEMENT (CONTINUED)

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 2012, 2011 and 2010 were $14,956, $14,956, and $14,145, respectively.

NOTE 8 – MINIMUM LEASE RECEIPTS

The Authority owns a Produce Market and a Seafood Market that are rented out by segregated units to area businesses. The Produce Market leases end June 30, 2016. The Seafood Market leases end June 30, 2015.

The Authority also owns a parking lot that is rented out for tractor trailer parking. This lease ends February 28, 2013.

The Authority also owns the Rock Hall Seafood Processing Plant, which it leases to the Town of Rock Hall. This lease ends June 30, 2016.

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

Year Ended June 30:	
2013	$ 2,237,726
2014	2,166,830
2015	1,860,143
2016	1,553,457
Total	$ 7,818,156

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

Wholesale Produce Market	$ 17,307,383
Wholesale Seafood Market	8,123,232
Cross Dock	2,490,701
Rock Hall Seafood Plant	688,919
Cost of leased assets	28,610,235
Less accumulated depreciation	(13,524,934)
Carrying amount of leased assets	$ 15,085,301

NOTE 9 – 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, 2012, 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 $1,045,488. The payroll of employees covered by the Maryland State Retirement and Pension Systems was $1,045,488.

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.

Authority employees were required to contribute 7% of their salaries annually for fiscal years ending June 30, 2012, 2011 and 2010. The Authority's contributions to the System for the fiscal years ending June 30, 2012, 2011 and 2010, exclusive of contributions made directly by the State of Maryland, were $127,171, $124,721, and $108,503, respectively. The percentage of required contributions for the Authority for fiscal years ending June 30, 2012, 2011 and 2010 was 10.46%, 12.41%, and 12.30%, respectively.

	Actual Contributions	Required Contributions	Actual as a Percentage of Required
Fiscal Year Ending:			
June 30, 2012	$ 127,171	$ 109,358	116.29%
June 30, 2011	124,721	132,417	94.19%
June 30, 2010	108,503	131,724	82.37%

Actual contributions are calculated and reported based on payroll periods that were paid during the fiscal year ending. Required contributions are calculated and reported based on the current year salary expense, which include current year payroll accruals, and exclude prior year payroll accruals. As such, the actual contributions differ from the required contributions due to timing differences arising from the amount of accrued payroll included in the salary expense used to calculate the required contributions. These differences do not constitute a net pension asset or obligation for the Authority.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Authority, in conjunction with the State's personnel management system, provides postemployment health care benefits to retired employees and their dependents via the State Employee and Retiree Health and Welfare Benefits Program (Plan). The Plan is a single-employer defined benefit healthcare plan established by State Personnel and Pensions Article, Sections 2-501 – 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. State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (Secretary). In addition, the Secretary shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without State subsidies, or who are not eligible to enroll. A more complete description of the State's post-employment benefits may be found in the State's CAFR, which can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

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. The State assesses a surcharge for postemployment health care benefits which is based on health care insurance charges for current employees.

The Authority contributed $66,997 to the retirees' postemployment benefits for the fiscal year ending June 30, 2012.

	Actual Contributions	Required Contributions	Percentage of Required
Fiscal Year Ending:			
June 30, 2012	$ 66,997	$ 66,997	100.00%
June 30, 2011	55,088	55,088	100.00%
June 30, 2010	61,906	61,906	100.00%

NOTE 11 – 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.

NOTE 12 – 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.

NOTE 13 – SUBSEQUENT EVENTS

Management evaluated subsequent events through August 21, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to August 21, 2012 that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.

SUPPLEMENTARY INFORMATION

MARYLAND FOOD CENTER AUTHORITY
SCHEDULE OF EXPENSES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
OPERATING EXPENSES				
Salaries, wages and related costs	$ 1,872,062	$ 1,915,700	$ 1,529,989	$ 385,711
Contractual services	924,366	914,366	937,240	(22,874)
Depreciation	852,057	852,057	705,999	146,058
Taxes	236,462	236,462	220,300	16,162
Fuel and utilities	345,550	343,250	361,050	(17,800)
Vehicle operation	242,274	241,274	200,216	41,058
Technical and special fees	87,573	85,572	113,141	(27,569)
Travel	111,900	111,900	89,602	22,298
Fixed charges	49,371	38,371	50,037	(11,666)
Communication	42,110	39,410	36,158	3,252
Supplies and materials	84,350	83,850	71,730	12,120
Maintenance and equipment charges	63,600	63,600	9,677	53,923
TOTAL OPERATING EXPENSES	$ 4,911,675	$ 4,925,812	$ 4,325,139	$ 600,673

MARYLAND FOOD CENTER AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2012

	Administrative Operating Accounts	Wholesale Produce Market Operating Accounts	Wholesale Seafood Market Operating Accounts	Capital Improvements	Total
OPERATING REVENUE					
Rental income	$ 2,266,575	$ 946,134	$ 942,811	$ -	$ 4,155,520
Entrance fees	-	310,635	99,483	-	410,118
Registration	-	33,060	11,175	-	44,235
Railroad	-	5,040	-	-	5,040
Total operating revenue	2,266,575	1,294,869	1,053,469	-	4,614,913
OPERATING EXPENSES					
Salaries, wages and related costs	620,944	587,796	321,249	-	1,529,989
Contractual services	173,188	349,033	340,199	74,820	937,240
Depreciation	59,047	60,254	35,941	646,952	802,194
Taxes	220,300	-	-	-	220,300
Fuel and utilities	10,845	126,448	223,757	-	361,050
Vehicle operation	4,366	52,683	46,972	-	104,021
Technical and special fees	23,616	56,495	33,030	-	113,141
Travel	82,755	5,838	1,009	-	89,602
Fixed charges	31,577	14,334	4,126	-	50,037
Communication	19,695	10,328	6,135	-	36,158
Supplies and materials	7,891	29,209	34,630	-	71,730
Equipment charges	805	2,451	6,421	-	9,677
Total operating expenses	1,255,029	1,294,869	1,053,469	721,772	4,325,139
Operating income (loss)	1,011,546	-	-	(721,772)	289,774
NONOPERATING REVENUE					
Interest and investment	39,226	-	-	-	39,226
NONOPERATING REVENUE					
Abandoned construction in progress loss	-	-	-	9,160	9,160
CHANGE IN NET ASSETS	$ 1,050,772	$ -	$ -	$ (730,932)	$ 319,840

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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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 (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 21, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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 the 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no 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 management, the Board of Directors, others within the entity, 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.

CliftonLarsonAllen LLP

Baltimore, Maryland
August 21, 2012