

MARYLAND FOOD CENTER AUTHORITY  
Jessup, Maryland

FINANCIAL STATEMENTS  
June 30, 2013



**CliftonLarsonAllen**

MARYLAND FOOD CENTER AUTHORITY  
Jessup, Maryland

FINANCIAL STATEMENTS  
June 30, 2013

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## Independent Auditor's Report

Board of Directors  
Maryland Food Center Authority  
Jessup, Maryland

### ***Report on the Financial Statements***

We have audited the accompanying basic financial statements of Maryland Food Center Authority (the Authority), a component unit of the State of Maryland, which comprise the statement of net position as of and for the year ended June 30, 2013, and the related statement of revenue, expenses and change in net position, cash flows, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Maryland Food Center Authority as of June 30, 2013, and the respective changes in financial position and, cash flows thereof 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 the management's discussion and analysis on pages 3-7 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Maryland Food Center Authority's basic financial statements. The combining schedule of revenues and expenses is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule of revenues and expenses is the responsibility of management and was derived from and relate 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 revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013, 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, and 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 result 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* in considering Maryland Food Center Authority's internal control over financial reporting and compliance.



Baltimore, Maryland  
September 9, 2013

**MARYLAND FOOD CENTER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

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, 2013. 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 Position; Revenues, Expenses and Changes in Net Position; 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 position – 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 position is 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, 2013

**CONDENSED FINANCIAL INFORMATION**

**Statement of Net Position**

The following table provides comparative data as of June 30, 2013 and 2012, and for the years then ended.

	2013	2012	Increase (Decrease)
<b>ASSETS</b>			
Current assets	\$ 4,748,770	\$ 3,468,460	\$ 1,280,310
Net capital assets	21,837,504	22,377,981	(540,477)
Note receivable - land covenant	100,000	179,629	(79,629)
<b>Total assets</b>	<b>\$ 26,686,274</b>	<b>\$ 26,026,070</b>	<b>\$ 660,204</b>
<b>LIABILITIES AND NET POSITION</b>			
Liabilities:			
Current liabilities	\$ 971,802	\$ 708,291	\$ 263,511
Non-current liabilities	83,722	50,955	32,767
Total liabilities	1,055,524	759,246	296,278
Net position:			
Invested in capital assets	21,837,504	22,377,981	(540,477)
Unrestricted	3,793,246	2,888,843	904,403
Total net position	25,630,750	25,266,824	363,926
<b>Total liabilities and net position</b>	<b>\$ 26,686,274</b>	<b>\$ 26,026,070</b>	<b>\$ 660,204</b>

The increase of \$1,280,310 in current assets is wholly attributable to a \$1,388,148 increase in cash and cash equivalents. This increase is attributable to a 30% decrease in capital improvement expenditures.

The increase of \$263,511 in current liabilities is due to a significant fiscal year 2013 increase of unearned Revenue of \$273,639. This is due to an excess of billings in relation with expenses for the Seafood and Produce markets.

**MARYLAND FOOD CENTER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**CONDENSED FINANCIAL INFORMATION (CONTINUED)**

**Statements of Revenues, Expenses and Changes in Net Position**

The following table provides comparative data, as of June 30, 2013 and 2012, and for the years then ended.

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Total operating revenues	\$ 4,470,340	\$ 4,614,913	\$ (144,573)
Total operating expenses	4,136,659	4,325,139	(188,480)
Operating income	333,681	289,774	43,907
Nonoperating revenues	31,918	39,226	(7,308)
Nonoperating expenses	1,673	9,160	(7,487)
<b>Change in net position</b>	<b>363,926</b>	<b>319,840</b>	<b>44,086</b>
<b>Net position, beginning of year</b>	<b>25,266,824</b>	<b>24,946,984</b>	<b>319,840</b>
<b>Net position, end of year</b>	<b><u>\$ 25,630,750</u></b>	<b><u>\$ 25,266,824</u></b>	<b><u>\$ 363,926</u></b>
Total revenues	\$ 4,502,258	\$ 4,654,139	\$ (151,881)
Total expenses	4,138,332	4,334,299	(195,967)
<b>Total</b>	<b><u>\$ 363,926</u></b>	<b><u>\$ 319,840</u></b>	<b><u>\$ 44,086</u></b>

The net income from operations was \$333,681 and interest and investment earnings were \$31,918.

During 2013, operating revenues decreased by \$144,573. This decrease was due primarily to a decrease 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. A decrease in additional rent income indicates a decrease in total market expenses. Operating expenses decreased by \$188,480. This decrease is attributable to the prior year 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. Now that regulations are established by the State of Maryland, and the composting facilities are open, the Authority has reduced the cost of waste. The increase in net position from \$25,266,824 to \$25,630,750, or \$363,926, was attributable to an increase in capital assets.

Overall, the Authority's financial position improved during the year ended June 30, 2013.

**MARYLAND FOOD CENTER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**BUDGETARY HIGHLIGHTS**

The Authority does not budget for revenues. The Authority had a positive variance of \$599,759 when actual expenses are compared to budgeted expenses. In 2013, 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>Positive (Negative) Variance</u>
<b>Operating expenses</b>				
Salaries, wages and related costs	\$ 1,868,679	\$ 1,868,679	\$ 1,585,973	\$ 282,706
Contractual services	909,104	909,104	716,191	192,913
Depreciation	71,806	71,806	57,317	14,489
Taxes	221,136	221,136	226,976	(5,840)
Fuel and utilities	237,250	237,250	309,591	(72,341)
Vehicle operation	225,974	225,974	177,830	48,144
Technical and special fees	64,358	64,358	88,351	(23,993)
Travel	111,750	111,750	64,211	47,539
Fixed charges	41,026	41,026	28,386	12,640
Communication	41,250	41,250	38,762	2,488
Supplies and materials	84,099	84,099	54,262	29,837
Maintenance and equipment charges	95,339	95,339	24,162	71,177
<b>Total operating expenses</b>	<u>\$ 3,971,771</u>	<u>\$ 3,971,771</u>	<u>\$ 3,372,012</u>	<u>\$ 599,759</u>

The variance for salaries, wages and related costs is attributable to vacant positions and actual employee and retiree health benefit costs that were lower than the State's budget preparation instructions. The fuel and utilities variance is due to an increase in Howard County Water and Sewer costs that were not anticipated at the time of budget preparations. The technical and special fees variance is due to a contractual employee hired to aid MFCA with a conversion to a paperless office. The variance for contractual services relates to reduced waste tonnage at the Produce & Seafood Market.

**MARYLAND FOOD CENTER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2013, the Authority had \$21,837,504 invested in capital assets, net of accumulated depreciation. This represents a decrease of \$540,477 from the prior year, with the change due to the combination of \$333,699 in capital asset additions and \$872,273 in depreciation expense.

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

Dock Replacement - Seafood	\$ 664,221
<b>Total</b>	<u>\$ 664,221</u>

**Debt**

At June 30, 2013, 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, 2015.

**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 Director of Finance at 7801 Oceano Avenue, Jessup, Maryland 20794.

**BASIC FINANCIAL STATEMENTS**

**MARYLAND FOOD CENTER AUTHORITY**  
**STATEMENT OF NET POSITION**  
June 30, 2013

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents - unrestricted	\$ 4,641,409
Accounts receivable	9,705
Note receivable - current portion, land covenant	89,696
Prepaid expenses	7,960
Total current assets	4,748,770

**NONCURRENT ASSETS**

Note receivable - land covenant	100,000
Non-depreciable capital assets	5,513,451
Depreciable capital assets, net of accumulated depreciation	16,324,053
Total noncurrent assets	21,937,504

**TOTAL ASSETS**

**\$ 26,686,274**

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts payable	\$ 245,349
Accrued payroll and related taxes	79,641
Unearned income	326,299
Accrued compensated absences, current portion	81,388
Accrued workers' compensation, current portion	11,625
Tenant deposits	227,500
Total current liabilities	971,802

**NONCURRENT LIABILITIES**

Accrued compensated absences	20,347
Accrued workers' compensation	63,375
Total noncurrent liabilities	83,722
Total liabilities	1,055,524

**NET POSITION**

Invested in capital assets	21,837,504
Unrestricted	3,793,246
Total net position	25,630,750

**TOTAL LIABILITIES AND NET POSITION**

**\$ 26,686,274**

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

**MARYLAND FOOD CENTER AUTHORITY**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
Year Ended June 30, 2013

<b>OPERATING REVENUES</b>	
Charges for services	\$ 4,470,340
<b>OPERATING EXPENSES</b>	
Salaries, wages and related costs	1,585,973
Contractual services	767,841
Depreciation	872,273
Taxes	226,976
Fuel and utilities	309,591
Vehicle operation	75,871
Technical and special fees	88,351
Travel	64,211
Fixed charges	28,386
Communication	38,762
Supplies and materials	54,262
Maintenance and equipment charges	24,162
Total operating expenses	<u>4,136,659</u>
<b>OPERATING INCOME</b>	333,681
<b>NONOPERATING REVENUES</b>	
Interest and investment revenue	<u>31,918</u>
<b>NONOPERATING EXPENSES</b>	
Sale/Disposition of Equipment - Loss	<u>1,673</u>
Total nonoperating expenses	<u>1,673</u>
<b>CHANGE IN NET ASSETS</b>	363,926
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>25,266,824</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 25,630,750</u></u>

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

**MARYLAND FOOD CENTER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
Year Ended June 30, 2013

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 4,562,969
Payments to suppliers	(1,371,725)
Payments to employees	(1,601,545)
	<u>1,589,699</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Principal payments received on notes receivable	100,000
Interest received	31,918
	<u>131,918</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from the sale of capital assets	230
Purchases of capital assets	(333,699)
	<u>(333,469)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,388,148
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,253,261</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,641,409</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 333,681
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	872,273
Discount on note receivable	(10,067)
Effects of changes in operating assets and liabilities:	
Accounts receivable	102,696
Prepaid expenses	(5,162)
Accounts payable	(26,000)
Accrued payroll and related taxes	2,683
Deferred revenue	273,639
Accrued workers compensation	36,000
Accrued compensated absences	9,956
	<u>9,956</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,589,699</u>

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

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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 Position
- Statement of Revenue, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

MARYLAND FOOD CENTER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation** (Continued)

All proprietary fund activities of the Authority follow GASB Statement No.62, Codification of Accounting and Financial Reporting Guidance Contained in pre November 30, 1989 FASB and AICPA pronouncements which incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and American Institute of Certified Public Accountants (AICPA) guidance issued before November 30, 1989.

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 guidance not covered by GASB 62 for any proprietary fund type activity. The authority has implemented all applicable GASB financial reporting requirements through GASB Statement No. 63.

**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.

**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 unearned 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 position 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.

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

MARYLAND FOOD CENTER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**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 \$2,765, for total cash on hand of \$5,765.

**Deposits**

At year-end, the carrying amount of the Authority's deposits was \$4,635,644 and the bank balance was \$4,635,644. The deposits of the Authority were not exposed to custodial credit risk at June 30, 2013. 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, 2013.

Cash on hand	\$ 5,765
Carrying amount of deposits	<u>4,635,644</u>
<b>Total cash and cash equivalents per Statement of Net Position</b>	<b><u>\$ 4,641,409</u></b>

Non-operating revenues include the following for the year ended June 30, 2013:

<b>Net interest and dividends</b>	<b><u>\$ 31,918</u></b>
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**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION**

A summary of changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
<b>Non-depreciable capital assets</b>					
Land	\$ 1,882,342	\$ -	\$ -	\$ -	\$ 1,882,342
Land held for development	3,220,843	-	-	-	3,220,843
Construction in progress	<u>858,966</u>	<u>215,522</u>	<u>-</u>	<u>(664,221)</u>	<u>410,267</u>
Total non-depreciable capital assets	<u>5,962,151</u>	<u>215,522</u>	<u>-</u>	<u>(664,221)</u>	<u>5,513,452</u>
<b>Depreciable capital assets</b>					
Buildings and improvements:					
Henry Hein Building and other	1,052,874	-	-	-	1,052,874
Wholesale Produce Market	17,307,383	-	-	-	17,307,383
Wholesale Seafood Market	8,123,232	669,504	-	-	8,792,736
Storm Water Management Pond	22,144	-	-	-	22,144
Cross Dock	2,490,701	-	-	-	2,490,701
Rock Hall Seafood Plant	<u>688,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>688,919</u>
Total buildings and improvements	29,685,253	669,504	-	-	30,354,757
Equipment - administrative	315,032	2,188	(21,661)	-	295,559
Equipment - produce and seafood	<u>1,476,263</u>	<u>110,706</u>	<u>-</u>	<u>-</u>	<u>1,586,969</u>
Total depreciable capital assets	<u>31,476,548</u>	<u>782,398</u>	<u>(21,661)</u>	<u>-</u>	<u>32,237,285</u>
<b>Accumulated Depreciation</b>					
Building and improvements	(14,044,953)	(748,843)	-	-	(14,793,796)
Equipment - administrative	(210,505)	(26,386)	19,758	-	(217,133)
Equipment - produce and seafood	<u>(805,260)</u>	<u>(97,044)</u>	<u>-</u>	<u>-</u>	<u>(902,304)</u>
Total accumulated depreciation	<u>(15,060,718)</u>	<u>(872,273)</u>	<u>19,758</u>	<u>-</u>	<u>(15,913,233)</u>
<b>Total capital assets, net</b>	<u>\$ 22,377,981</u>	<u>\$ 125,647</u>	<u>\$ (1,903)</u>	<u>\$ (664,221)</u>	<u>\$ 21,837,504</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, 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.

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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, 2013 was \$189,696.

**NOTE 5 – LONG-TERM OBLIGATIONS**

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	Balance Ending June 30, 2012	Additions	Reductions	Balance Ending June 30, 2013	Amounts Due Within 1 Year
Compensated absences	\$ 91,779	\$ 64,271	\$ (54,315)	\$ 101,735	\$ 81,388
Workers' compensation	41,000	41,290	(7,290)	75,000	11,625
<b>Total</b>	<u>\$ 130,779</u>	<u>\$ 105,561</u>	<u>\$ (61,605)</u>	<u>\$ 176,735</u>	<u>\$ 93,013</u>

**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, 2013, the capital improvements and maintenance reserve for the Produce Market and Seafood Market had a balance of \$(3,367,511) and \$(1,201,252), respectively. The following balance is a restricted portion of net position.

	Balance Ending June 30, 2012	Additions	Capital Improvements and Reductions	Balance Ending June 30, 2013*
Produce Market	\$ (3,499,707)	\$ 230,000	\$ 97,804	\$ (3,367,511)
Seafood Market	(1,261,995)	105,000	44,257	(1,201,252)

\* 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.

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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 2013, 2012 and 2011 were \$18,359, \$14,956, and \$14,956, 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:

<b>Year Ended June 30:</b>	
2014	\$ 2,340,603
2015	1,927,363
2016	853,883
2017	<u>122,745</u>
<b>Total</b>	<b><u>\$ 5,244,594</u></b>

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

Wholesale Produce Market	\$ 17,307,383
Wholesale Seafood Market	8,792,736
Cross Dock	2,490,701
Rock Hall Seafood Plant	<u>688,919</u>
Cost of leased assets	29,279,739
Less accumulated depreciation	<u>(14,254,070)</u>
<b>Carrying amount of leased assets</b>	<b><u>\$ 15,025,669</u></b>

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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, 2013, 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 \$1,030,116. The payroll of employees covered by the Maryland State Retirement and Pension Systems was \$1,030,116.

**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, 2013, 2012 and 2011. The Authority's contributions to the System for the fiscal years ending June 30, 2013, 2012 and 2011, exclusive of contributions made directly by the State of Maryland, were \$147,110, \$127,171, and \$124,721, respectively. The percentage of required contributions for the Authority for fiscal years ending June 30, 2013, 2012 and 2011 was 11.47 %, 10.46%, and 12.41%, respectively.

	Actual Contributions	Required Contributions	Actual as a Percentage of Required
Fiscal Year Ending:			
June 30, 2013	\$ 147,110	\$ 118,154	124.51%
June 30, 2012	127,171	109,358	116.29%
June 30, 2011	124,721	132,417	94.19%

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.

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

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 \$84,211 to the retirees’ postemployment benefits for the fiscal year ending June 30, 2013.

	<u>Actual</u> <u>Contributions</u>	<u>Required</u> <u>Contributions</u>	<u>Percentage of</u> <u>Required</u>
Fiscal Year Ending:			
June 30, 2013	\$ 84,211	\$ 84,211	100.00%
June 30, 2012	66,997	66,997	100.00%
June 30, 2011	55,088	55,088	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.

**MARYLAND FOOD CENTER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 13 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 9, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to September 9, 2013 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, 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, 2013.

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

**SUPPLEMENTARY INFORMATION**

**MARYLAND FOOD CENTER AUTHORITY**  
**COMBINING SCHEDULE OF REVENUES AND EXPENSES**  
Year Ended June 30, 2013

	Wholesale				Total
	Administrative Operating Accounts	Produce	Wholesale		
		Market	Seafood Market		
		Operating Accounts	Operating Accounts	Operating Accounts	
<b>OPERATING REVENUE</b>					
Rental income	\$ 2,343,793	\$ 841,749	\$ 875,485	\$ -	\$ 4,061,027
Entrance fees	-	258,853	84,291	-	343,144
Registration	-	51,946	10,983	-	62,929
Railroad	-	3,240	-	-	3,240
Total operating revenue	<u>2,343,793</u>	<u>1,155,788</u>	<u>970,759</u>	<u>-</u>	<u>4,470,340</u>
<b>OPERATING EXPENSES</b>					
Salaries, wages and related costs	628,745	610,142	347,086	-	1,585,973
Contractual services	149,689	287,840	278,662	51,650	767,841
Depreciation	69,729	53,293	36,254	712,997	872,273
Taxes	226,976	-	-	-	226,976
Fuel and utilities	12,594	78,959	218,038	-	309,591
Vehicle operation	3,710	44,074	28,087	-	75,871
Technical and special fees	48,061	13,631	26,659	-	88,351
Travel	55,348	8,304	559	-	64,211
Fixed charges	16,930	7,806	3,650	-	28,386
Communication	19,056	11,435	8,271	-	38,762
Supplies and materials	8,340	32,082	13,840	-	54,262
Equipment charges	6,287	8,222	9,653	-	24,162
Total operating expenses	<u>1,245,465</u>	<u>1,155,788</u>	<u>970,759</u>	<u>764,647</u>	<u>4,136,659</u>
Operating income (loss)	1,098,328	-	-	(764,647)	333,681
<b>NONOPERATING REVENUE</b>					
Interest and investment	<u>31,918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,918</u>
<b>NONOPERATING REVENUE</b>					
Loss on sale of equipment	<u>1,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,673</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,128,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (764,647)</u>	<u>\$ 363,926</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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Maryland Food Center Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Maryland Food Center Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maryland Food Center Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Maryland Food Center Authority's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Maryland Food Center Authority's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Baltimore, Maryland  
September 9, 2013



An independent member of Nexia International