

Northern Illinois Food Bank

Financial Report

June 30, 2016

Northern Illinois Food Bank

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Independent Auditor's Report

To the Board of Directors
Northern Illinois Food Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Illinois Food Bank (the "Food Bank"), which comprise the statement of financial position as of June 30, 2016 and 2015 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors
Northern Illinois Food Bank

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois Food Bank as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of the Northern Illinois Food Bank'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 results of that testing, and not to provide an opinion on the 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 Northern Illinois Food Bank's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 20, 2016

Northern Illinois Food Bank

Statement of Financial Position

	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Assets						
Cash and cash equivalents	\$ 4,619,135	\$ 1,838,430	\$ 6,457,565	\$ 4,232,470	\$ 1,323,027	\$ 5,555,497
Investments	4,818,859	-	4,818,859	4,196,549	-	4,196,549
Accounts receivable:						
Grants receivable	283,302	-	283,302	418,897	37,315	456,212
Accounts receivable	114,499	-	114,499	91,209	-	91,209
Contributions receivable - Net (Note 2)	15,288	520,748	536,036	3,064	344,453	347,517
Inventory (Note 4)	6,702,400	-	6,702,400	12,142,603	-	12,142,603
Prepaid expenses	29,185	-	29,185	31,410	-	31,410
Bond issue costs - Net	142,034	-	142,034	149,450	-	149,450
Deposits and coupons	405,218	-	405,218	5,218	-	5,218
Property and equipment - Net (Note 5)	17,554,817	1,367,278	18,922,095	17,823,376	1,519,881	19,343,257
Total assets	\$ 34,684,737	\$ 3,726,456	\$ 38,411,193	\$ 39,094,246	\$ 3,224,676	\$ 42,318,922
Liabilities and Net Assets						
Liabilities						
Accounts payable	\$ 693,275	\$ -	\$ 693,275	\$ 713,072	\$ -	\$ 713,072
Bonds payable (Note 6)	8,302,942	-	8,302,942	8,701,493	-	8,701,493
Accrued liabilities and other:						
Due to agencies	152,752	-	152,752	145,128	-	145,128
Accrued wages	821,978	-	821,978	981,549	-	981,549
Accrued capital spending	-	-	-	179,168	-	179,168
Other accrued expenses	113,201	-	113,201	5,403	-	5,403
Total liabilities	10,084,148	-	10,084,148	10,725,813	-	10,725,813
Net Assets						
Unrestricted:						
Undesignated	23,800,589	-	23,800,589	27,968,433	-	27,968,433
Board designated	800,000	-	800,000	400,000	-	400,000
Temporarily restricted	-	3,726,456	3,726,456	-	3,224,676	3,224,676
Total net assets	24,600,589	3,726,456	28,327,045	28,368,433	3,224,676	31,593,109
Total liabilities and net assets	\$ 34,684,737	\$ 3,726,456	\$ 38,411,193	\$ 39,094,246	\$ 3,224,676	\$ 42,318,922

Northern Illinois Food Bank

Statement of Activities and Changes in Net Assets

	Year Ended									
	June 30, 2016					June 30, 2015				
	Unrestricted		Total Unrestricted	Temporarily Restricted	Total	Unrestricted		Total Unrestricted	Temporarily Restricted	Total
Food Bank Operations	Donated Food*	Food Bank Operations				Donated Food				
Revenue and Support										
Contributions and grants	\$ 9,689,168	\$ -	\$ 9,689,168	\$ 2,971,991	\$ 12,661,159	\$ 8,282,333	\$ -	\$ 8,282,333	\$ 2,744,906	\$ 11,027,239
Fees and grants from										
government agencies	3,474,143	-	3,474,143	-	3,474,143	3,005,903	-	3,005,903	173,000	3,178,903
Program service fees	4,282,992	-	4,282,992	-	4,282,992	4,662,596	-	4,662,596	-	4,662,596
Donated goods and services	207,509	114,321,980	114,529,489	-	114,529,489	210,070	124,830,187	125,040,257	-	125,040,257
Investment income	135,140	-	135,140	-	135,140	59,295	-	59,295	-	59,295
Miscellaneous income	24,014	-	24,014	-	24,014	28,341	-	28,341	-	28,341
Total revenue and support	17,812,966	114,321,980	132,134,946	2,971,991	135,106,937	16,248,538	124,830,187	141,078,725	2,917,906	143,996,631
Net assets released from restrictions	2,470,211	-	2,470,211	(2,470,211)	-	3,015,074	-	3,015,074	(3,015,074)	-
Total revenue, support, and net assets released from restrictions	20,283,177	114,321,980	134,605,157	501,780	135,106,937	19,263,612	124,830,187	144,093,799	(97,168)	143,996,631
Expenses										
Program services - Food Bank operations	15,592,356	119,490,058	135,082,414	-	135,082,414	14,911,386	123,278,926	138,190,312	-	138,190,312
Support services:										
Management and general	838,575	-	838,575	-	838,575	883,716	-	883,716	-	883,716
Fundraising	2,452,012	-	2,452,012	-	2,452,012	2,287,882	-	2,287,882	-	2,287,882
Total expenses	18,882,943	119,490,058	138,373,001	-	138,373,001	18,082,984	123,278,926	141,361,910	-	141,361,910
Increase (Decrease) in Net Assets	1,400,234	(5,168,078)	(3,767,844)	501,780	(3,266,064)	1,180,628	1,551,261	2,731,889	(97,168)	2,634,721
Net Assets - Beginning of year	16,855,202	11,513,231	28,368,433	3,224,676	31,593,109	15,674,574	9,961,970	25,636,544	3,321,844	28,958,388
Net Assets - End of year	\$ 18,255,436	\$ 6,345,153	\$ 24,600,589	\$ 3,726,456	\$ 28,327,045	\$ 16,855,202	\$ 11,513,231	\$ 28,368,433	\$ 3,224,676	\$ 31,593,109

*See Note I - Inventory subheading.

Northern Illinois Food Bank

Statement of Functional Expenses

	Year Ended							
	June 30, 2016				June 30, 2015			
	Program Services		Support Services		Program Services		Support Services	
	Food Bank Operations	Management and General	Fundraising	Total	Food Bank Operations	Management and General	Fundraising	Total
Staff salaries	\$ 4,464,296	\$ 350,036	\$ 663,257	\$ 5,477,589	\$ 4,191,928	\$ 401,520	\$ 577,396	\$ 5,170,844
Payroll taxes	331,529	20,493	51,796	403,818	314,250	24,728	44,439	383,417
Health insurance	706,232	26,085	74,003	806,320	613,734	18,695	58,043	690,472
Retirement plan	112,781	9,394	19,434	141,609	88,029	8,838	14,818	111,685
Total salaries and related expenses	5,614,838	406,008	808,490	6,829,336	5,207,941	453,781	694,696	6,356,418
Contributed food distributed	119,490,055	-	-	119,490,055	123,278,925	-	-	123,278,925
Purchased food distributed	5,457,832	-	-	5,457,832	5,390,007	-	-	5,390,007
Transportation	653,750	-	8	653,758	658,910	153	73	659,136
Operating supplies	547,640	-	-	547,640	466,502	-	-	466,502
Occupancy and utilities	377,393	2,819	6,180	386,392	377,166	3,092	6,183	386,441
Mortgage interest	211,546	1,516	3,464	216,526	220,620	1,808	3,617	226,045
Facility rental	167,310	-	-	167,310	156,352	-	-	156,352
Insurance	246,877	11,536	2,992	261,405	235,266	8,220	2,420	245,906
Equipment purchase, maintenance, and rental	73,179	245	-	73,424	70,538	227	-	70,765
Building maintenance	143,463	1,028	2,349	146,840	176,054	1,443	2,886	180,383
Office and technology supplies	160,576	7,736	7,004	175,316	175,064	9,428	14,495	198,987
Agency grants	313,636	-	-	313,636	211,879	-	-	211,879
Local travel	110,403	4,629	18,512	133,544	111,442	3,619	16,405	131,466
Telecommunications	44,384	24,628	2,547	71,559	41,442	26,310	1,823	69,575
Feeding America and Feeding Illinois fees	-	71,412	-	71,412	-	81,908	-	81,908
Direct mail, promotional, and advertising	109,462	111,222	1,024,888	1,245,572	109,442	107,378	969,619	1,186,439
Conferences and meetings	34,226	6,926	5,640	46,792	35,074	5,346	7,434	47,854
Postage and shipping	3,410	18,786	34,296	56,492	3,637	16,220	36,351	56,208
Staffing development	37,272	7,032	5,832	50,136	27,612	8,675	7,402	43,689
Dues and subscriptions	23,967	2,954	59,985	86,906	27,713	11,056	68,233	107,002
Special events	-	-	234,700	234,700	-	-	192,956	192,956
Professional and consulting fees	62,941	96,940	46,340	206,221	73,918	105,401	70,852	250,171
Printing and publications	23,272	23,604	36,526	83,402	19,273	21,282	43,915	84,470
Donated goods and services	59,007	4,607	84,446	148,060	80,579	922	77,568	159,069
Miscellaneous	43,437	20,818	52,192	116,447	36,144	2,271	55,350	93,765
Total functional expenses before depreciation and amortization	134,009,876	824,446	2,436,391	137,270,713	137,191,500	868,540	2,272,278	140,332,318
Depreciation and amortization	1,072,535	14,128	15,625	1,102,288	998,812	15,176	15,604	1,029,592
Total functional expenses	\$ 135,082,411	\$ 838,574	\$ 2,452,016	\$ 138,373,001	\$ 138,190,312	\$ 883,716	\$ 2,287,882	\$ 141,361,910

Northern Illinois Food Bank

Statement of Cash Flows

	Year Ended	
	June 30, 2016	June 30, 2015
Cash Flows from Operating Activities		
Cash and cash equivalents received from contributions and grants	\$ 12,472,639	\$ 11,108,851
Cash and cash equivalents received from program services	8,036,989	7,957,114
Cash paid to suppliers and employees	(17,429,818)	(16,575,824)
Net cash and cash equivalents provided by operating activities	3,079,810	2,490,141
Cash Flows from Investing Activities		
Purchase of property and equipment	(813,457)	(1,497,907)
Proceeds from sale of property and equipment	32,550	13,313
Purchase of investments	(2,792,377)	(3,637,189)
Proceeds from sale of investments	2,194,093	1,095,939
Net cash and cash equivalents used in investing activities	(1,379,191)	(4,025,844)
Cash Flows from Financing Activities		
Principal payments on tax exempt revenue bonds	(398,551)	(398,542)
Prepayment of principal on tax exempt revenue bonds in deposit account	(400,000)	-
Net cash and cash equivalents used in financing activities	(798,551)	(398,542)
Net Increase (Decrease) in Cash	902,068	(1,934,245)
Cash and Cash Equivalents - Beginning of year	5,555,497	7,489,742
Cash and Cash Equivalents - End of year	\$ 6,457,565	\$ 5,555,497

Northern Illinois Food Bank

Statement of Cash Flows (Continued)

A reconciliation of the change in net assets to net cash provided by operating activities is as follows:

	Year Ended	
	June 30, 2016	June 30, 2015
Change in net assets	\$ (3,266,064)	\$ 2,634,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,102,288	1,029,592
Gain on sale of property and equipment	(12,520)	(11,562)
Net realized and change in unrealized loss on investments	(24,026)	34,494
Decrease in provision for uncollectible accounts	(1,725)	(92,691)
Noncash contribution of property and equipment	(59,450)	(51,000)
Noncash donated goods and services	(114,321,980)	(124,830,187)
Noncash donated goods and services expense	119,490,058	123,278,926
(Increase) decrease in operating assets:		
Accounts receivable	(23,290)	(359)
Grants receivable	172,910	(22,561)
Contributions receivable	(186,794)	174,303
Purchased inventory	272,125	(147,750)
Prepaid expenses	2,225	185
Accounts payable	(19,797)	204,838
Accrued expenses	(51,774)	261,227
Due to agencies	7,624	27,965
Net cash and cash equivalents provided by operating activities	<u>\$ 3,079,810</u>	<u>\$ 2,490,141</u>

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note I - Nature of Activities and Significant Accounting Policies

Nature of Organization - Northern Illinois Food Bank (the "Food Bank") was organized as a not-for-profit corporation under the laws of the State of Illinois on September 15, 1982. The Food Bank is a member of Feeding America (formerly, America's Second Harvest), the nation's food bank network. Northern Illinois Food Bank leads the northern Illinois community in solving hunger by providing nutritious meals to those in need through innovative programs and partnerships. Food manufacturers, local groceries, corporations, foundations, and individuals come together to donate food and funds, and evaluate and repack food for distribution to the Food Bank's partner feeding programs that, in turn, provide the food to hungry people in the community. More than 71,000 different people each week rely on the food provided by Northern Illinois Food Bank through its 800 member food pantries, soup kitchens, shelters, and youth and senior feeding programs in 13 counties. The Food Bank's major sources of revenue are received from contributions, grants, and program services fees.

Significant accounting policies are as follows:

Basis of Accounting - The financial statements of the Food Bank have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Classification of Net Assets - Net assets of the Food Bank are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Food Bank's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Cash and Cash Equivalents - The Food Bank considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents held for long-term purposes are classified as investments. The Food Bank maintains its cash and cash equivalents in bank deposit accounts at West Suburban Bank and BMO Harris Bank, the balances of which at times exceed federally insured limits. The Food Bank has not experienced any losses in such accounts. The Food Bank believes it is not exposed to any significant credit risk on cash and cash equivalents.

Inventory - The Food Bank's primary types of inventory are donated, purchased, and United States Department of Agriculture (USDA) emergency food program (EFP) .

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note I - Nature of Activities and Significant Accounting Policies (Continued)

Donated inventory represents items donated to the Food Bank for distribution. It is valued based on a survey published by Feeding America. In 2016, the Food Bank changed its valuation methodology for donated inventory to use the aggregate wholesale value rather than using a valuation by product category, both included in the survey published by Feeding America. By following this method, the Food Bank believes the value of donated food received and distributed will more closely approximate industry norms. During 2016, the Food Bank's donated inventory decreased by \$4,912,677. The majority of this decrease was due to the price and mix of inventory, and \$733,161 was due to the change in valuation methodology.

Purchased and Emergency Food and Shelter Program (EFSP) inventory are stated at purchase price, by use of the first-in, first out (FIFO) method of valuation.

USDA EFP inventory is valued based on the annual value of commodities provided by the Illinois Department of Human Services EFP program.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Contributions Receivable - Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Food Bank provides an allowance for estimated uncollectible contributions based on its historical experience of the relationship between actual bad debts and net amounts pledged.

Investments - Investments are reported at their fair values. Unrealized gains and losses are included in the change in net assets.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. All expenditures for property and equipment over \$2,500 are capitalized.

Costs of maintenance and repairs are charged to expense when incurred.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note I - Nature of Activities and Significant Accounting Policies (Continued)

The Food Bank reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, the Food Bank reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property and equipment.

In-kind Contributions and Contributed Services - In-kind contributions are reflected as contributions at their fair value at the date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Food Bank recorded in-kind contributions, which included special event items, miscellaneous services and supplies, and fixed assets in the amount of \$207,509 and \$210,070 in fiscal years 2016 and 2015, respectively. The Food Bank has also recorded \$114,321,980 and \$124,830,187 of donated food in fiscal years 2016 and 2015, respectively. Donated food is valued based on a survey published by Feeding America. With the exception of the fixed assets, which were capitalized, these amounts have been reported as both donated goods and services revenue and donated goods and services expense on the statement of activities and changes in net assets.

A substantial number of volunteers provide nonspecialized services to the Food Bank throughout the year; however, no amounts are recorded in the financial statements as they do not meet the criteria for financial statement recognition.

The Food Bank is a sponsor of the AmeriCorps VISTA program. AmeriCorps VISTA members make a year-long, full-time commitment to serve at the Food Bank on capacity building and community engagement projects. The VISTA members working at the Food Bank are considered volunteers and no amounts are recorded in the financial statements as they do not meet the criteria for financial statement recognition.

Federal Income Taxes - The Food Bank is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Food Bank and recognize a tax liability if the Food Bank has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the organization, and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Food Bank is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note I - Nature of Activities and Significant Accounting Policies (Continued)

Accounts Receivable - Accounts receivable are valued at management's estimate of the amount that will ultimately be collected. Based on experience and the low allowable limits granted to purchasing agencies, management does not consider it necessary to establish an allowance for trade receivables. The Food Bank uses the direct write-off method for uncollectible accounts when management determines that the receivable will not be collected.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 20, 2016, which is the date the financial statements were available to be issued.

Upcoming Accounting Changes - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Food Bank's year ending June 30, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Food Bank has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note I - Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Food Bank's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August, 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Food Bank, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Food Bank's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Food Bank has not yet determined the impact this standard will have on the financial statements.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note 2 - Contributions Receivable

Contributions receivable at June 30 include the following:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 459,754	\$ 282,314
One to five years	<u>89,500</u>	<u>81,000</u>
Total minimum contributions receivable	549,254	363,314
Less:		
Discounts on contributions	(2,943)	(3,797)
Allowance for doubtful accounts	<u>(10,275)</u>	<u>(12,000)</u>
Net minimum contributions receivable	<u>\$ 536,036</u>	<u>\$ 347,517</u>

The Food Bank used a rate of 3 percent to calculate the present value of contributions receivable. Contributions receivable are restricted for the purchase of food and property and equipment.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Food Bank's assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by the Food Bank to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Food Bank has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. The Food Bank has no Level 3 investments.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note 3 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Food Bank's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Investments:				
Money market funds	\$ -	\$ 139,061	\$ -	\$ 139,061
Corporate bonds and notes	-	1,257,168	-	1,257,168
Municipal securities	-	159,933	-	159,933
Preferred securities	-	47,656	-	47,656
Equities	4,484	-	-	4,484
Negotiable certificates of deposit	-	2,798,040	-	2,798,040
Total investments	<u>\$ 4,484</u>	<u>\$ 4,401,858</u>	<u>\$ -</u>	<u>\$ 4,406,342</u>

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
Investments:				
Money market funds	\$ -	\$ 39,652	\$ -	\$ 39,652
Corporate bonds and notes	-	1,009,647	-	1,009,647
Municipal securities	-	282,649	-	282,649
Exchange-traded funds	71,370	-	-	71,370
Preferred securities	-	97,950	-	97,950
Negotiable certificates of deposit	-	2,682,050	-	2,682,050
Total investments	<u>\$ 71,370</u>	<u>\$ 4,111,948</u>	<u>\$ -</u>	<u>\$ 4,183,318</u>

The fair values of money market funds, certificates of deposit, corporate bonds and notes, municipal securities, and preferred securities at June 30, 2016 and 2015 were determined primarily based on Level 2 inputs. The Food Bank estimates the fair value of these investments based on comparable security transactions or observable yield curves for comparable securities.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note 3 - Fair Value Measurements (Continued)

Not included in the above table is \$412,517 and \$13,231 of cash held in the investment account at June 30, 2016 and 2015, respectively.

The Food Bank's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. During the years ended June 30, 2016 and 2015, there were no such transfers.

Note 4 - Inventory

Inventory at June 30, 2016 and 2015 is comprised of the following:

	2016		2015	
	Dollars	Pounds	Dollars	Pounds
Donated	\$ 6,040,748	3,617,214	\$ 10,953,425	3,873,868
Purchased	355,223	664,120	569,334	892,616
United States Department of Agriculture (Emergency Food Program)	306,429	496,083	560,546	617,820
EFSP	-	-	59,298	77,984
Total inventory	<u>\$ 6,702,400</u>	<u>4,777,417</u>	<u>\$ 12,142,603</u>	<u>5,462,288</u>

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2016	2015	Depreciable Life - Years
Geneva building	\$ 16,299,018	\$ 16,249,632	39
Geneva land	2,338,673	2,338,673	-
Building and improvements	777,586	773,590	5-39
Furniture and equipment	1,777,877	1,774,477	5-10
Computers	390,595	323,217	3
Vehicles	3,121,081	2,722,881	5
Total cost	24,704,830	24,182,470	
Accumulated depreciation	<u>5,782,735</u>	<u>4,839,213</u>	
Net property and equipment	<u>\$ 18,922,095</u>	<u>\$ 19,343,257</u>	

Depreciation expense was \$1,094,872 for 2016 and \$1,022,176 for 2015.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note 6 - Bonds Payable

The Food Bank issued 25-year variable rate tax-exempt bonds through the City of Geneva, Kane County, Illinois (the "City") in the amount of \$12,000,000, dated as of November 2010. The Food Bank entered into a loan agreement with the City for the proceeds of the bond issue, which were held by the trustee (Amalgamated Bank of Chicago) and disbursed periodically for payment of costs incurred in conjunction with the Food Bank's construction of a warehouse and certain food storage facilities and related property in the City. The bonds have a maturity date of May 1, 2037 and are secured by the real estate located in the Village of Geneva, Kane County, Illinois.

Interest is payable monthly at 2.50 percent through May 1, 2023, after which the rate will adjust on specified reset dates. Principal payments in the amount of \$33,212 are also payable monthly.

Minimum principal payments on the bonds payable to maturity as of June 30, 2016 are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 398,542
2018	398,542
2019	398,542
2020	398,542
2021	398,542
Thereafter	<u>6,310,232</u>
Total	<u>\$ 8,302,942</u>

Total interest expense incurred and paid was \$216,526 and \$226,045 for the years ended June 30, 2016 and 2015, respectively.

Costs associated with the issuance of the bonds and execution of the modification totaled \$178,633 and are being amortized using the straight-line method over the term of the bonds. Amortization charged to expense during the years ended June 30, 2016 and 2015 was \$7,416.

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note 7 - Operating Leases

The Food Bank leases its branch location facilities, which expire at various dates, with options to renew. Facility rental expense under these leases was \$167,310 and \$156,352 for 2016 and 2015, respectively.

The Food Bank also leases vehicles and equipment on a month-to-month basis. Expense under these leases was \$70,994 and \$70,765 for 2016 and 2015, respectively.

The future minimum lease payments due under the terms of the operating leases are listed below. The lease term for the Park City location ends on August 31, 2019. A new lease for the Rockford location was agreed on and extends the lease through December 31, 2024.

2017	\$ 135,005
2018	139,497
2019	143,223
2020	62,547
2021	58,700
Thereafter	<u>209,100</u>
Total	<u>\$ 748,072</u>

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for the following:

	<u>2016</u>	<u>2015</u>
Purpose restricted - Primarily programs	\$ 2,359,179	\$ 1,704,796
Use restriction on building:		
Expiring in 2017	150,493	303,096
Expiring in 2018	89,323	89,323
Expiring in 2020	50,000	50,000
Expiring in 2023	65,466	65,466
Expiring in 2028	329,120	329,120
Expiring in 2030	250,000	250,000
Expiring in 2031	425,000	425,000
Expiring in 2032	<u>7,875</u>	<u>7,875</u>
Total temporarily restricted net assets	<u>\$ 3,726,456</u>	<u>\$ 3,224,676</u>

Northern Illinois Food Bank

Notes to Financial Statements June 30, 2016 and 2015

Note 8 - Temporarily Restricted Net Assets (Continued)

The use restriction on building relates to forgivable mortgage notes totaling approximately \$1,375,000 and \$1,500,000 as of June 30, 2016 and 2015, respectively. These mortgage notes, the remaining balance of which is recorded as temporarily restricted net assets, will be forgiven as indicated in the above table as long as the Food Bank complies with the requirements of these notes. Management fully expects that it will.

Note 9 - Retirement Plan

The Food Bank participates in a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code. The plan covers all eligible employees and is subject to a vesting schedule for employer contributions. The Food Bank contributes annually 2 percent of considered compensation and also matches 50 percent of an employee's contribution with a maximum matching contribution of 2 percent. For the years ended June 30, 2016 and 2015, employer contributions were \$141,609 and \$111,685, respectively.

Note 10 - Related Party Transactions

The Food Bank paid \$527,245 and \$508,035 during the years ended June 30, 2016 and 2015, respectively, for food provided by a firm for whom a board member is a senior manager.