

Northern Illinois Food Bank

**Financial Statements
and
Independent Auditor's Report
For the Year Ended
June 30, 2012**

Wolf & Company LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Illinois Food Bank

We have audited the accompanying statements of financial position of NORTHERN ILLINOIS FOOD BANK (a non-profit organization) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Northern Illinois Food Bank's management. 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 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 financial statement presentation. We believe that our audits provide 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 Northern Illinois Food Bank as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years 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 October 5, 2012, on our consideration of 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* and should be considered in assessing the results of our audits.

Oakbrook Terrace, Illinois
October 5, 2012

Wolf & Company LLP

NORTHERN ILLINOIS FOOD BANK
STATEMENT OF FINANCIAL POSITION
June 30, 2012

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 3,390,629	\$1,393,179	\$ 4,783,808
Investments	627,821	-	627,821
Accounts receivable	133,560	-	133,560
Grant receivable	232,944	21,232	254,176
Contributions receivable, current portion, net	-	349,243	349,243
Inventory	5,735,273	-	5,735,273
Prepaid expenses	181,150	-	181,150
Total current assets	<u>10,301,377</u>	<u>1,763,654</u>	<u>12,065,031</u>
Property and equipment, net of accumulated depreciation	<u>18,539,378</u>	<u>1,519,881</u>	<u>20,059,259</u>
Other assets:			
Long term investments	913,197	-	913,197
Contributions receivable, less current portion, net	-	101,583	101,583
Deposits and coupons	218	-	218
Bond issuance costs, net	123,978	-	123,978
Total other assets	<u>1,037,393</u>	<u>101,583</u>	<u>1,138,976</u>
Total assets	<u>\$ 29,878,148</u>	<u>\$3,385,118</u>	<u>\$ 33,263,266</u>

LIABILITIES AND NET ASSETS

Current liabilities:			
Accounts payable	\$ 324,139	\$ -	\$ 324,139
Accounts payable for capital projects	10,101	-	10,101
Accrued wages	547,156	-	547,156
Other accrued expenses	182,254	-	182,254
Bonds payable, current portion	480,000	-	480,000
Due to agencies	73,242	-	73,242
Total current liabilities	1,616,892	-	1,616,892
Bonds payable, net of current portion	<u>9,485,000</u>	<u>-</u>	<u>9,485,000</u>
Total liabilities	<u>11,101,892</u>	<u>-</u>	<u>11,101,892</u>
Net assets:			
Unrestricted net assets:			
Designated by the Board of Directors for:			
General operations	485,448	-	485,448
Capital improvement	105,000	-	105,000
Equipment purchases	96,200	-	96,200
Facilities expansion	104,800	-	104,800
Undesignated	17,984,808	-	17,984,808
Total unrestricted net assets	18,776,256	-	18,776,256
Temporarily restricted net assets	<u>-</u>	<u>3,385,118</u>	<u>3,385,118</u>
Total net assets	<u>18,776,256</u>	<u>3,385,118</u>	<u>22,161,374</u>
Total liabilities and net assets	<u>\$ 29,878,148</u>	<u>\$3,385,118</u>	<u>\$ 33,263,266</u>

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENT OF FINANCIAL POSITION
 June 30, 2011

ASSETS

	Unrestricted	Temporarily Restricted	Total
Current assets:			
Cash and cash equivalents	\$ 3,476,371	\$1,522,661	\$ 4,999,032
Investments	6,645,793	-	6,645,793
Accounts receivable	143,351	-	143,351
Grants receivable	161,640	225,000	386,640
Contributions receivable, current portion, net	-	143,044	143,044
Inventory	5,428,564	-	5,428,564
Prepaid expenses	183,595	-	183,595
Total current assets	16,039,314	1,890,705	17,930,019
Property and equipment, net of accumulated depreciation	15,451,309	2,270,997	17,722,306
Other assets:			
Long term investments	733,212	-	733,212
Contributions receivable, less current portion, net	-	185,417	185,417
Deposits and coupons	218	-	218
Bond issuance costs, net	129,294	-	129,294
Total other assets	862,724	185,417	1,048,141
Total assets	\$ 32,353,347	\$4,347,119	\$ 36,700,466

LIABILITIES AND NET ASSETS

Current liabilities:			
Accounts payable	\$ 609,011	\$ -	\$ 609,011
Accounts payable for capital projects	2,755,023	-	2,755,023
Retainage payable for capital projects	1,159,183	-	1,159,183
Accrued wages	394,754	-	394,754
Other accrued expenses	154,567	2,577	157,144
Bonds payable, current portion	40,000	-	40,000
Due to agencies	87,568	-	87,568
Total current liabilities	5,200,106	2,577	5,202,683
Bonds payable, net of current portion	11,960,000	-	11,960,000
Total liabilities	17,160,106	2,577	17,162,683
Net assets:			
Unrestricted net assets:			
Designated by the Board of Directors for:			
General operations	485,448	-	485,448
Capital improvement	105,000	-	105,000
Equipment purchases	96,200	-	96,200
Facilities expansion	104,800	-	104,800
Undesignated	14,401,793	-	14,401,793
Total unrestricted net assets	15,193,241	-	15,193,241
Temporarily restricted net assets	-	4,344,542	4,344,542
Total net assets	15,193,241	4,344,542	19,537,783
Total liabilities and net assets	\$ 32,353,347	\$4,347,119	\$ 36,700,466

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

	Unrestricted			Temporarily Restricted	Total
	Food Bank Operations	Donated Food	Total Unrestricted		
Support and revenue:					
Contributions and grants	\$ 6,447,594	\$ -	\$ 6,447,594	\$ 2,697,625	\$ 9,145,219
Fees and grants from government agencies	2,623,146	-	2,623,146	246,232	2,869,378
Program service fees	4,587,419	-	4,587,419	-	4,587,419
Rental income	8,560	-	8,560	-	8,560
Investment income	42,618	-	42,618	-	42,618
Other income	406,367	-	406,367	-	406,367
Donated goods and services	<u>251,732</u>	<u>67,192,233</u>	<u>67,443,965</u>	<u>-</u>	<u>67,443,965</u>
 Total support and revenue	 <u>14,367,436</u>	 <u>67,192,233</u>	 <u>81,559,669</u>	 <u>2,943,857</u>	 <u>84,503,526</u>
 Net assets released from restrictions	 <u>3,903,281</u>	 <u>-</u>	 <u>3,903,281</u>	 <u>(3,903,281)</u>	 <u>-</u>
Expenses:					
Programs:					
Food Bank operations	<u>12,511,047</u>	<u>66,991,190</u>	<u>79,502,237</u>	<u>-</u>	<u>79,502,237</u>
Supporting services:					
Management and general	734,094	-	734,094	-	734,094
Fund raising	<u>1,643,604</u>	<u>-</u>	<u>1,643,604</u>	<u>-</u>	<u>1,643,604</u>
 Total supporting services	 <u>2,377,698</u>	 <u>-</u>	 <u>2,377,698</u>	 <u>-</u>	 <u>2,377,698</u>
 Total expenses	 <u>14,888,745</u>	 <u>66,991,190</u>	 <u>81,879,935</u>	 <u>-</u>	 <u>81,879,935</u>
 Change in net assets	 3,381,972	 201,043	 3,583,015	 (959,424)	 2,623,591
Net assets:					
Beginning of year	<u>10,239,692</u>	<u>4,953,549</u>	<u>15,193,241</u>	<u>4,344,542</u>	<u>19,537,783</u>
 End of year	 <u>\$ 13,621,664</u>	 <u>\$ 5,154,592</u>	 <u>\$ 18,776,256</u>	 <u>\$ 3,385,118</u>	 <u>\$ 22,161,374</u>

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2011

	Unrestricted		Total Unrestricted	Temporarily Restricted	Total
	Food Bank Operations	Donated Food			
Support and revenue:					
Contributions and grants	\$ 4,967,917	\$ -	\$ 4,967,917	\$ 3,136,323	\$ 8,104,240
Fees and grants from government agencies	2,812,691	-	2,812,691	650,493	3,463,184
Program service fees	4,862,209	-	4,862,209	-	4,862,209
Rental income	12,893	-	12,893	-	12,893
Investment income	18,158	-	18,158	-	18,158
Other income	15,547	-	15,547	-	15,547
Donated goods and services	<u>49,626</u>	<u>55,217,031</u>	<u>55,266,657</u>	<u>-</u>	<u>55,266,657</u>
 Total support and revenue	 <u>12,739,041</u>	 <u>55,217,031</u>	 <u>67,956,072</u>	 <u>3,786,816</u>	 <u>71,742,888</u>
 Net assets released from restrictions	 <u>3,421,369</u>	 <u>-</u>	 <u>3,421,369</u>	 <u>(3,421,369)</u>	 <u>-</u>
Expenses:					
Programs:					
Food Bank operations	<u>10,183,722</u>	<u>55,774,435</u>	<u>65,958,157</u>	<u>-</u>	<u>65,958,157</u>
Supporting services:					
Management and general	562,516	-	562,516	-	562,516
Fund raising	<u>1,675,377</u>	<u>-</u>	<u>1,675,377</u>	<u>-</u>	<u>1,675,377</u>
 Total supporting services	 <u>2,237,893</u>	 <u>-</u>	 <u>2,237,893</u>	 <u>-</u>	 <u>2,237,893</u>
 Impairment loss on property	 <u>1,631,283</u>	 <u>-</u>	 <u>1,631,283</u>	 <u>-</u>	 <u>1,631,283</u>
 Total expenses	 <u>14,052,898</u>	 <u>55,774,435</u>	 <u>69,827,333</u>	 <u>-</u>	 <u>69,827,333</u>
 Change in net assets	 2,107,512	 (557,404)	 1,550,108	 365,447	 1,915,555
Net assets:					
Beginning of year	<u>8,132,180</u>	<u>5,510,953</u>	<u>13,643,133</u>	<u>3,979,095</u>	<u>17,622,228</u>
End of year	<u>\$ 10,239,692</u>	<u>\$ 4,953,549</u>	<u>\$ 15,193,241</u>	<u>\$ 4,344,542</u>	<u>\$ 19,537,783</u>

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Programs	Supporting Services		Total
	Food Bank Operations	Management and General	Fund Raising	
Employee expenses:				
Staff salaries	\$ 3,216,206	\$ 358,200	\$ 447,456	\$ 4,021,862
Payroll taxes	255,426	26,873	35,807	318,106
Health insurance	427,272	22,967	33,205	483,444
Retirement plan	78,770	7,086	8,353	94,209
Total employee expenses	<u>3,977,674</u>	<u>415,126</u>	<u>524,821</u>	<u>4,917,621</u>
Other expenses:				
Contributed food distributed	66,991,190	-	-	66,991,190
Purchased food distributed	4,753,904	-	-	4,753,904
Transportation	601,164	-	-	601,164
Operating supplies	313,470	-	-	313,470
Occupancy and utilities	365,223	3,844	6,760	375,827
Mortgage interest	342,334	3,603	6,336	352,273
Facility rental	97,615	-	-	97,615
Insurance	217,200	7,065	2,339	226,604
Equipment purchase, maintenance and rental	74,729	1,181	11,528	87,438
Building maintenance	245,270	13,826	6,331	265,427
Office and technology supplies	80,940	32,360	18,619	131,919
Agency grants	72,698	-	-	72,698
Local travel	77,589	3,152	7,671	88,412
Telecommunications	44,679	21,806	2,142	68,627
Feeding America and Feeding Illinois fees	-	52,495	-	52,495
Direct mail, promotional and advertising	14,905	29,810	821,777	866,492
Conferences and meetings	17,482	7,197	8,235	32,914
Postage and shipping	676	33,332	2,292	36,300
Staffing development	25,311	14,400	6,136	45,847
Dues and subscriptions	12,010	10,577	22,772	45,359
Special events	1	-	95,801	95,802
Professional and consulting fees	95,390	63,756	18,228	177,374
Printing and publications	8,497	1,502	31,297	41,296
Donated goods and services	149,832	307	5,568	155,707
Miscellaneous	20,077	2,799	25,880	48,756
Total other expenses	<u>74,622,186</u>	<u>303,012</u>	<u>1,099,712</u>	<u>76,024,910</u>
Total expenses before depreciation and amortization	78,599,860	718,138	1,624,533	80,942,531
Depreciation and amortization	<u>902,377</u>	<u>15,956</u>	<u>19,071</u>	<u>937,404</u>
Total expenses	<u>\$79,502,237</u>	<u>\$ 734,094</u>	<u>\$ 1,643,604</u>	<u>\$81,879,935</u>

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	<u>Programs</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Food Bank Operations</u>	<u>Management and General</u>	<u>Fund Raising</u>	
Employee expenses:				
Staff salaries	\$ 2,674,353	\$ 304,563	\$ 455,357	\$ 3,434,273
Payroll taxes	196,467	18,956	33,376	248,799
Health insurance	375,728	19,717	47,194	442,639
Retirement plan	64,179	7,228	9,569	80,976
Total employee expenses	<u>3,310,727</u>	<u>350,464</u>	<u>545,496</u>	<u>4,206,687</u>
Other expenses:				
Contributed food distributions	55,774,435	-	-	55,774,435
Purchased food distributed	4,246,104	-	-	4,246,104
Transportation	542,615	26	-	542,641
Operating supplies	353,307	-	-	353,307
Occupancy and utilities	291,123	9,291	9,291	309,705
Facility rental	180,317	-	-	180,317
Insurance	179,257	21,116	-	200,373
Equipment purchase, maintenance and rental	90,021	(244)	2,284	92,061
Building maintenance	81,614	2,835	2,605	87,054
Office and technology supplies	66,523	7,152	8,217	81,892
Local travel	63,906	3,461	10,677	78,044
Telecommunications	50,665	1,854	7,592	60,111
Feeding America and Feeding Illinois fees	40,270	7,106	-	47,376
Direct mail, promotional and advertising	37,985	1,529	859,853	899,367
Conferences and meetings	31,961	12,502	6,692	51,155
Postage and shipping	26,511	7,128	2,083	35,722
Staff development	22,664	5,697	1,785	30,146
Dues and subscriptions	18,318	2,936	9,904	31,158
Special events	14,113	-	142,779	156,892
Professional and consulting fees	15,427	82,082	8,031	105,540
Printing and publications	3,645	988	22,526	27,159
Donated goods and services	28,363	18,463	2,800	49,626
Miscellaneous	25,892	17,095	19,160	62,147
Total other expenses	<u>62,185,036</u>	<u>201,017</u>	<u>1,116,279</u>	<u>63,502,332</u>
Total expenses before depreciation and amortization	65,495,763	551,481	1,661,775	67,709,019
Depreciation and amortization	<u>462,394</u>	<u>11,035</u>	<u>13,602</u>	<u>487,031</u>
Total expenses	<u>\$65,958,157</u>	<u>\$ 562,516</u>	<u>\$ 1,675,377</u>	<u>\$68,196,050</u>

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from support and revenue	\$ 16,898,000	\$ 17,179,301
Cash paid to suppliers and employees	<u>(13,859,737)</u>	<u>(11,616,730)</u>
Net cash provided by operating activities	<u>3,038,263</u>	<u>5,562,571</u>
Cash flows from investing activities:		
Purchase of property and equipment	(7,916,500)	(9,786,851)
Proceeds from sale of property and equipment	9,311	900
Purchase of investments	(6,796,505)	(32,330,432)
Proceeds from sale of investments	<u>12,605,207</u>	<u>25,605,350</u>
Net cash used in investing activities	<u>(2,098,487)</u>	<u>(16,511,033)</u>
Cash flows from financing activities:		
Proceeds from tax exempt debt issuance	-	12,000,000
Payments for debt issuance costs	-	(132,838)
Principal payments on bonds	<u>(1,155,000)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(1,155,000)</u>	<u>11,867,162</u>
Net increase (decrease) in cash and cash equivalents	(215,224)	918,700
Cash and cash equivalents:		
Beginning of year	<u>4,999,032</u>	<u>4,080,332</u>
End of year	<u>\$ 4,783,808</u>	<u>\$ 4,999,032</u>

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	2012	2011
<u>Reconciliation of changes in net assets to net cash provided by operating activities:</u>		
Change in net assets	\$ 2,623,591	\$ 1,915,555
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	937,404	487,031
(Gain) loss on sale of property and equipment	(196,408)	28,675
Impairment loss on property	-	1,631,283
Net realized and unrealized loss on investments	29,283	66,756
Increase (decrease) in provision for uncollectible accounts	(14,792)	72,816
Non-cash contribution of property and equipment	(96,025)	(142,367)
Non-cash donated goods and services	(67,347,942)	(55,266,657)
Non-cash donated goods and services expense	67,146,897	55,824,061
Changes in operating assets and liabilities:		
Decrease in accounts receivable	9,791	365,758
Decrease in grants receivable	132,464	115,360
(Increase) decrease in contributions receivable	(107,573)	296,464
Increase in purchased inventory	(105,664)	(102,802)
(Increase) decrease in prepaid expenses	2,445	(158,986)
Decrease in other assets	-	2,100
Increase (decrease) in accounts payable	(138,394)	340,223
Increase in accrued expenses	177,512	82,557
Increase (decrease) in due to agencies	(14,326)	4,744
Total adjustments	414,672	3,647,016
Net cash provided by operating activities	\$ 3,038,263	\$ 5,562,571
<u>Supplemental disclosure of non-cash investing and financing activities:</u>		
Cash paid for interest on bonds	\$ 426,706	\$ 293,217
Cash received for interest earned on bond proceeds	\$ 49,646	\$ 41,369
Donated property and equipment	\$ 96,025	\$ 142,367
Property and equipment additions in accounts payable at year end	\$ 10,101	\$ 4,060,682
Proceeds from sale of property used to pay off bonds	\$ 880,000	\$ -

See accompanying notes to financial statements.

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

1. 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 engages the community in a commitment to feed our hungry neighbors. Food manufacturers, local groceries, corporations, foundations and individuals across 13 counties come together to donate food and funds, and evaluate and repack food for distribution to the Food Bank's partner agencies that, in turn, provide the food to hungry people in the community. More than 60,000 different people each week rely on the food provided by Northern Illinois Food Bank through its 700 member food pantries, soup kitchens, shelters and youth and senior feeding programs. The Food Bank's major sources of revenue are received from contributions, grants and program services fees.

2. Summary of Significant Accounting Policies

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) and, accordingly, reflect all significant receivables, payables and other liabilities. The significant policies followed are described below to enhance the usefulness of the financial statements to the user.

Basis of Presentation - The Food Bank is required to report information regarding its financial position and activities according to three classes of net assets based on the absence or existence and nature of donor imposed restrictions as follows:

Unrestricted Net Assets - Amounts included in this class represent resources not subject to donor imposed restrictions which can be used for any purpose consistent with the mission of the Food Bank. Unrestricted net assets may be further classified into designated and undesignated with designated assets representing funds set aside at the discretion of the Board for certain purposes.

Temporarily Restricted Net Assets - Amounts in this class represent resources that are subject to specific donor imposed restrictions to be used for a specific purpose or a stated period of time.

Permanently Restricted Net Assets - Amounts in this class represent resources which are to be permanently used for a specific purpose determined by the donor. There were no permanently restricted net assets as of June 30, 2012 and 2011.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Food Bank considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents.

Money market funds maintained in brokerage accounts are considered to be investments in the statement of financial position.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Cont.)

Contributions (cont.) -

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 stated at cost, with the exception of donated property which is recorded at fair market value on the date of the donation. All expenditures for property and equipment over \$2,500 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Lives
Building and improvements	5 - 39 years
Furniture and equipment	5 - 10 years
Computers	3 years
Vehicles	5 years

Maintenance and repair costs are expensed as incurred.

Donations of property are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

In-Kind Contributions and Contributed Services - In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Food Bank benefited from donated office space in the Meadow Mart Shopping Center in Loves Park, Illinois during fiscal year 2012 which was valued at \$35,452. This amount has been reported as both donated goods and services revenue and donated goods and services expense on the statement of activities.

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Cont.)

In-Kind Contributions and Contributed Services (cont.) -

The Food Bank recognizes the fair value of contributed services received if such services a) create or enhance non-financial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

A substantial number of volunteers provide non-specialized 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.

Income Tax Status - The Food Bank is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Food Bank's tax-exempt purpose is subject to taxation as unrelated business income. The Food Bank recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Food Bank is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before the 2009 tax year.

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.

Concentrations - The Food Bank routinely maintains balances at financial institutions in excess of federally insured credit limits.

Inventory - Purchased inventory is valued at lower of cost or market, using the first-in, first-out method. Donated inventory is valued based on a survey published by Feeding America.

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 revenues, expenses, gains and losses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements - In January 2010, the Financial Accounting Standards Board (FASB) issued guidance in Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 amended disclosure requirements related to recurring and nonrecurring fair value measurements. For fiscal years beginning after December 15, 2010, ASU No. 2010-06 requires separate presentation of purchases, sales, issuances and settlements in the Level 3 reconciliation table. The Food Bank has adopted these disclosure requirements in 2012.

In May 2011, the FASB issued guidance in Accounting Standards Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 was issued to improve comparability of fair value application, measurements and disclosures between U.S. GAAP reporting and

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Cont.)

Fair Value Measurements (cont.) -

IFRS reporting. ASU No. 2011-04 clarifies fair value definitions and enhances fair value measurement guidance with respect to highest and best use measurements, equity instrument measurements, and measurement of financial instruments that are managed within a portfolio. Additionally, ASU No. 2011-04 expands disclosures for unobservable inputs used in Level 3 fair value measurements. ASU No. 2011-04 is effective for annual periods beginning after December 15, 2011. The Food Bank is currently evaluating the impact of ASU No. 2011-04 on its fair value measurements and disclosures and intends on adopting the guidance in 2013.

3. Contributions Receivable

Contributions receivable at June 30 include the following:

As of June 30, 2012:

	Due by June 30, 2013	Due from July 1, 2013 to June 30, 2015	Total
Gross contributions receivable	\$ 388,047	\$ 125,106	\$ 513,153
Discount on contributions	-	(4,303)	(4,303)
Allowance for doubtful contributions	<u>(38,804)</u>	<u>(19,220)</u>	<u>(58,024)</u>
Net	<u>\$ 349,243</u>	<u>\$ 101,583</u>	<u>\$ 450,826</u>

As of June 30, 2011:

	Due by June 30, 2012	Due from July 1, 2012 to June 30, 2015	Total
Gross contributions receivable	\$ 222,336	\$ 200,083	\$ 422,419
Discount on contributions	(6,476)	(14,666)	(21,142)
Allowance for doubtful contributions	<u>(72,816)</u>	<u>-</u>	<u>(72,816)</u>
Net	<u>\$ 143,044</u>	<u>\$ 185,417</u>	<u>\$ 328,461</u>

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

4. Fair Value Measurements

Generally accepted accounting principles provide a uniform framework for the definition, measurement and disclosure of fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such accounting guidance also establishes a fair value hierarchy which requires an

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont.)

entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1:* Quoted market prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:* Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3:* Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 and 2011.

Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include U.S. government agency securities, U.S. government sponsored agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal bonds. Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2012 and 2011 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012:				
Money market funds	\$ 356,071	\$ -	\$ 356,071	\$ -
Corporate bonds and notes	879,058	-	879,058	-
Municipal securities	163,343	-	163,343	-
Preferred securities	142,546	-	142,546	-
Total	<u>\$ 1,541,018</u>	<u>\$ -</u>	<u>\$ 1,541,018</u>	<u>\$ -</u>

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont.)

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2011:				
Money market funds	\$ 2,378,692	\$ -	\$ 2,378,692	\$ -
Certificates of deposit	2,302,914	-	2,302,914	-
Corporate bonds and notes	2,047,727	-	2,047,727	-
Municipal securities	142,473	-	142,473	-
Preferred securities	203,036	-	203,036	-
Government securities	304,163	-	304,163	-
Total	<u>\$ 7,379,005</u>	<u>\$ -</u>	<u>\$ 7,379,005</u>	<u>\$ -</u>

Fair values of assets and liabilities measured on a non-recurring basis at June 30, 2011 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>			<u>Total Losses</u>
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Property	<u>\$ 678,750</u>	<u>\$ -</u>	<u>\$ 678,750</u>	<u>\$ -</u>	<u>\$ (1,631,283)</u>

In the year ending June 30, 2011, the Food Bank's St. Charles, Illinois property (which includes land, building and improvements) with a carrying value of \$2,310,033, was written down to its fair value of \$725,000, less cost to sell of \$46,250 (or \$678,750), resulting in an impairment loss on property of \$1,631,283.

The determination of the estimated fair value of the property was based on an offer received for its purchase. In the year ending June 30, 2012, this property was sold. Net proceeds on the sale were \$880,012, resulting in a gain on sale of property of \$204,371 in 2012.

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

5. Investments

The cost and fair value of investments held by the Food Bank as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 356,071	\$ 356,071	\$ 2,378,692	\$ 2,378,692
Certificates of deposit	-	-	2,308,053	2,302,914
Corporate bonds and notes	888,133	879,058	2,093,878	2,047,727
Municipal securities	162,340	163,343	144,770	142,473
Preferred securities	151,375	142,546	201,820	203,036
Government securities	-	-	304,455	304,163
	<u>\$ 1,557,919</u>	<u>\$ 1,541,018</u>	<u>\$ 7,431,668</u>	<u>\$ 7,379,005</u>

The investment return as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 71,901	\$ 84,634
Realized loss	(63,745)	(19,230)
Unrealized gain (loss)	<u>34,462</u>	<u>(47,246)</u>
	<u>\$ 42,618</u>	<u>\$ 18,158</u>

6. Inventory

Inventory at June 30, 2012 and 2011 is comprised of the following:

	<u>2012</u>	<u>2011</u>
Donated	\$ 5,020,350	\$ 4,777,025
Purchased	580,681	475,017
USDA (EFP)	<u>134,242</u>	<u>176,522</u>
	<u>\$ 5,735,273</u>	<u>\$ 5,428,564</u>

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

7. Property and Equipment

The Food Bank's property and equipment at June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Geneva building	\$ 15,324,867	\$ 12,883,450
Geneva land	2,338,673	2,304,942
St. Charles land	-	595,000
Building and improvements	703,760	2,455,628
Furniture and equipment	1,572,889	941,308
Computer	271,695	380,220
Vehicles	<u>1,951,270</u>	<u>1,676,570</u>
	22,163,154	21,237,118
Less: accumulated depreciation	<u>2,103,895</u>	<u>3,514,812</u>
	<u>\$ 20,059,259</u>	<u>\$ 17,722,306</u>

In the year ended June 30, 2012, interest in the amount of \$62,396 was capitalized, which was net of interest earned of \$13,037. In the year ended June 30, 2011, interest in the amount of \$247,144 was capitalized, which was net of interest earned of \$46,073.

For the years ended June 30, 2012 and 2011, depreciation expense was \$932,088 and \$483,487, respectively.

Certain capital assets with a net carrying amount of \$223,536 as of June 30, 2012, were acquired with grant funds received from the local governmental agencies in prior fiscal years. Under terms of the grant agreements, these assets revert to the granting agencies if they are no longer used in accordance with the Food Bank's stated mission.

8. 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

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

8. Bonds Payable (Cont.)

in the City. The bonds have a maturity date of May 1, 2037. Interest is payable monthly at 3.65% through November 2015 after which interest will adjust on specified reset dates. Principal payments are scheduled monthly. Annual payments are as follows:

Year Ending June 30,	
2013	\$ 480,000
2014	480,000
2015	480,000
2016	480,000
2017	480,000
Thereafter	7,565,000
	\$ 9,965,000

Interest expense on the bonds payable totaled \$352,273 and \$0 for the fiscal years ended June 30, 2012 and 2011, respectively.

Costs associated with the issuance of the bonds totaled \$132,838 and are being amortized using the straight-line method over the terms of the respective bonds. Amortization charged to expense during the year ended June 30, 2012 and 2011 was \$5,316 and \$3,544, respectively.

9. Operating Leases

The Food Bank leases the facilities for its branch locations, vehicles and equipment under operating leases. The leases expire at various dates through August 2013 with options to renew. Facility rental expense under these leases was \$97,615 and \$180,317 for 2012 and 2011, respectively. Vehicles and equipment expense under these leases was \$103,523 and \$96,365 for 2012 and 2011, respectively.

The future minimum lease payments due under the terms of the operating leases are as follows:

Year Ending June 30,	Amount
2013	\$ 78,034
2014	13,048
	\$ 91,082

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 consist of the following:

	2012	2011
Construction of new facility	\$ 472,058	\$ 553,463
Purpose restricted, primarily programs	1,393,179	1,520,082
Use restriction on building:		
Expiring in 2014	-	11,625
Expiring in 2016	303,097	1,067,041
Expiring in 2018	89,323	297,745
Expiring in 2021	50,000	50,000
Expiring in 2023	65,466	65,466
Expiring in 2029	329,120	329,120
Expiring in 2031	250,000	250,000
Expiring in 2032	432,875	200,000
	\$ 3,385,118	\$ 4,344,542

At June 30, 2011, the Food Bank's temporarily restricted net asset balance included \$1,291,384 of net assets restricted for use at the Food Bank's St. Charles, Illinois location. During fiscal year 2012, this facility was sold and the restrictions were transferred to the Food Bank's Geneva, Illinois location.

11. Retirement Plan

The Food Bank sponsors a deferred compensation 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% of considered compensation and also provides for a matching contribution on 50% of employee contributions, up to 2%. For the years ended June 30, 2012 and 2011, employer contributions were \$94,209 and \$80,976, respectively.

12. Related Parties

An architectural firm owned by a board member provided architectural services to the Food Bank and received \$19,369 and \$294,633 in fees for the years ended June 30, 2012 and 2011, respectively.

A company with a board member as a managing partner provided event management services to the Food Bank and received \$2,252 and \$7,449 in management fees for the years ended June 30, 2012 and 2011, respectively. The board member also received \$7,672 in reimbursement of expenses for the year ended June 30, 2011.

For the year ended June 30, 2011, a board member received \$8,334 in consulting fees.

NORTHERN ILLINOIS FOOD BANK
NOTES TO FINANCIAL STATEMENTS

13. Reclassification

A reclassification between unrestricted Food Bank Operations and unrestricted Donated Food net assets in the amount of \$840,621 was made to the June 30, 2010 net assets to agree unrestricted donated food net assets to end of year donated inventory. Total unrestricted net assets and changes in net assets are unchanged due to this reclassification.

14. Subsequent Events

The Food Bank has evaluated subsequent events through October 5, 2012, the date the financial statements were available to be issued.