

# **Northern Illinois Food Bank**

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**Financial Report**

**June 30, 2017**

# 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, 2017 and 2016 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.

### ***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, 2017 and 2016 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.

To the Board of Directors  
Northern Illinois Food Bank

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017 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 & Morse, PLLC*

October 26, 2017

# Northern Illinois Food Bank

## Statement of Financial Position

	June 30, 2017			June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 5,285,984	\$ 2,169,624	\$ 7,455,608	\$ 4,619,135	\$ 1,838,430	\$ 6,457,565
Investments	4,933,020	-	4,933,020	4,818,859	-	4,818,859
Accounts receivable:						
Grants receivable	739,031	-	739,031	283,302	-	283,302
Accounts receivable	121,519	-	121,519	114,499	-	114,499
Contributions receivable - Net (Note 3)	4,173	520,070	524,243	15,288	520,748	536,036
Inventory (Note 5)	5,566,308	-	5,566,308	6,702,400	-	6,702,400
Prepaid expenses	36,457	-	36,457	29,185	-	29,185
Deposits and coupons	5,218	-	5,218	405,218	-	405,218
Property and equipment - Net (Note 6)	17,145,493	1,216,786	18,362,279	17,554,817	1,367,278	18,922,095
<b>Total assets</b>	<b>\$ 33,837,203</b>	<b>\$ 3,906,480</b>	<b>\$ 37,743,683</b>	<b>\$ 34,542,703</b>	<b>\$ 3,726,456</b>	<b>\$ 38,269,159</b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities</b>						
Accounts payable	\$ 967,654	\$ -	\$ 967,654	\$ 693,275	\$ -	\$ 693,275
Bonds payable - Net (Note 7)	7,369,771	-	7,369,771	8,160,908	-	8,160,908
Accrued liabilities and other:						
Due to agencies	173,504	-	173,504	152,752	-	152,752
Accrued wages	920,994	-	920,994	821,978	-	821,978
Other accrued expenses	99,258	-	99,258	113,201	-	113,201
<b>Total liabilities</b>	<b>9,531,181</b>	<b>-</b>	<b>9,531,181</b>	<b>9,942,114</b>	<b>-</b>	<b>9,942,114</b>
<b>Net Assets</b>						
Unrestricted:						
Undesignated	23,506,022	-	23,506,022	23,800,589	-	23,800,589
Board designated	800,000	-	800,000	800,000	-	800,000
Temporarily restricted	-	3,906,480	3,906,480	-	3,726,456	3,726,456
<b>Total net assets</b>	<b>24,306,022</b>	<b>3,906,480</b>	<b>28,212,502</b>	<b>24,600,589</b>	<b>3,726,456</b>	<b>28,327,045</b>
<b>Total liabilities and net assets</b>	<b>\$ 33,837,203</b>	<b>\$ 3,906,480</b>	<b>\$ 37,743,683</b>	<b>\$ 34,542,703</b>	<b>\$ 3,726,456</b>	<b>\$ 38,269,159</b>

# Northern Illinois Food Bank

## Statement of Activities and Changes in Net Assets

	Year Ended									
	June 30, 2017					June 30, 2016				
	Unrestricted		Total Unrestricted	Temporarily Restricted	Total	Unrestricted		Total Unrestricted	Temporarily Restricted	Total
Food Bank Operations	Donated Food	Food Bank Operations				Donated Food*				
<b>Revenue and Support</b>										
Contributions and grants	\$ 9,349,174	\$ -	\$ 9,349,174	\$ 2,968,413	\$ 12,317,587	\$ 9,689,168	\$ -	\$ 9,689,168	\$ 2,971,991	\$ 12,661,159
Fees and grants from										
government agencies	3,362,720	-	3,362,720	-	3,362,720	3,474,143	-	3,474,143	-	3,474,143
Program service fees	4,055,892	-	4,055,892	-	4,055,892	4,282,992	-	4,282,992	-	4,282,992
Donated goods and services	362,903	118,056,613	118,419,516	-	118,419,516	207,509	114,321,980	114,529,489	-	114,529,489
Investment income	71,184	-	71,184	-	71,184	135,140	-	135,140	-	135,140
Miscellaneous income	37,201	-	37,201	-	37,201	24,014	-	24,014	-	24,014
<b>Total revenue and support</b>	<b>17,239,074</b>	<b>118,056,613</b>	<b>135,295,687</b>	<b>2,968,413</b>	<b>138,264,100</b>	<b>17,812,966</b>	<b>114,321,980</b>	<b>132,134,946</b>	<b>2,971,991</b>	<b>135,106,937</b>
Net assets released from restrictions	2,788,389	-	2,788,389	(2,788,389)	-	2,470,211	-	2,470,211	(2,470,211)	-
<b>Total revenue, support, and net assets released from restrictions</b>	<b>20,027,463</b>	<b>118,056,613</b>	<b>138,084,076</b>	<b>180,024</b>	<b>138,264,100</b>	<b>20,283,177</b>	<b>114,321,980</b>	<b>134,605,157</b>	<b>501,780</b>	<b>135,106,937</b>
<b>Expenses</b>										
Program services - Food Bank operations	15,309,457	119,450,681	134,760,138	-	134,760,138	15,592,356	119,490,058	135,082,414	-	135,082,414
Support services:										
Management and general	853,448	-	853,448	-	853,448	838,575	-	838,575	-	838,575
Fundraising	2,765,057	-	2,765,057	-	2,765,057	2,452,012	-	2,452,012	-	2,452,012
<b>Total expenses</b>	<b>18,927,962</b>	<b>119,450,681</b>	<b>138,378,643</b>	<b>-</b>	<b>138,378,643</b>	<b>18,882,943</b>	<b>119,490,058</b>	<b>138,373,001</b>	<b>-</b>	<b>138,373,001</b>
<b>Increase (Decrease) in Net Assets</b>	<b>1,099,501</b>	<b>(1,394,068)</b>	<b>(294,567)</b>	<b>180,024</b>	<b>(114,543)</b>	<b>1,400,234</b>	<b>(5,168,078)</b>	<b>(3,767,844)</b>	<b>501,780</b>	<b>(3,266,064)</b>
<b>Net Assets - Beginning of year</b>	<b>18,255,436</b>	<b>6,345,153</b>	<b>24,600,589</b>	<b>3,726,456</b>	<b>28,327,045</b>	<b>16,855,202</b>	<b>11,513,231</b>	<b>28,368,433</b>	<b>3,224,676</b>	<b>31,593,109</b>
<b>Net Assets - End of year</b>	<b>\$ 19,354,937</b>	<b>\$ 4,951,085</b>	<b>\$ 24,306,022</b>	<b>\$ 3,906,480</b>	<b>\$ 28,212,502</b>	<b>\$ 18,255,436</b>	<b>\$ 6,345,153</b>	<b>\$ 24,600,589</b>	<b>\$ 3,726,456</b>	<b>\$ 28,327,045</b>

\*See Note I - Inventory subheading.

# Northern Illinois Food Bank

## Statement of Functional Expenses

	Year Ended							
	June 30, 2017				June 30, 2016			
	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	\$ 4,345,061	\$ 458,323	\$ 750,452	\$ 5,553,836	\$ 4,464,296	\$ 350,036	\$ 663,257	\$ 5,477,589
Payroll taxes	332,257	30,336	58,809	421,402	331,529	20,493	51,796	403,818
Health insurance	629,064	27,510	105,464	762,038	706,232	26,085	74,003	806,320
Retirement plan	96,514	10,850	19,310	126,674	112,781	9,394	19,434	141,609
Total salaries and related expenses	5,402,896	527,019	934,035	6,863,950	5,614,838	406,008	808,490	6,829,336
Contributed food distributed	119,450,681	-	-	119,450,681	119,490,058	-	-	119,490,058
Purchased food distributed	5,392,848	-	-	5,392,848	5,457,832	-	-	5,457,832
Transportation	618,223	-	-	618,223	653,750	-	8	653,758
Operating supplies	681,969	-	-	681,969	547,640	-	-	547,640
Occupancy and utilities	343,994	4,697	12,647	361,338	377,393	2,820	6,180	386,393
Mortgage interest	187,086	9,971	6,878	203,935	211,546	8,932	3,464	223,942
Facility rental	164,375	-	-	164,375	167,310	-	-	167,310
Insurance	269,355	8,449	4,537	282,341	246,877	11,536	2,992	261,405
Equipment purchase, maintenance, and rental	64,342	263	-	64,605	73,179	245	-	73,424
Building maintenance	216,826	2,961	7,972	227,759	143,463	1,028	2,349	146,840
Office and technology supplies	161,389	8,617	12,272	182,278	160,576	7,736	7,004	175,316
Agency grants	154,247	-	-	154,247	313,636	-	-	313,636
Local travel	101,309	5,108	17,103	123,520	110,403	4,629	18,512	133,544
Telecommunications	42,452	21,952	2,077	66,481	44,384	24,628	2,547	71,559
Feeding America and Feeding Illinois fees	-	88,356	-	88,356	-	71,412	-	71,412
Direct mail, promotional, and advertising	16,447	9,410	1,187,842	1,213,699	109,462	111,222	1,024,884	1,245,568
Conferences and meetings	34,830	8,865	5,730	49,425	34,226	6,926	5,640	46,792
Postage and shipping	1,041	13,600	36,531	51,172	3,410	18,786	34,296	56,492
Staffing development	39,278	3,536	7,008	49,822	37,272	7,032	5,832	50,136
Dues and subscriptions	29,199	3,316	58,455	90,970	23,967	2,954	59,985	86,906
Special events	-	-	183,709	183,709	-	-	234,700	234,700
Professional and consulting fees	83,916	110,244	62,639	256,799	62,941	96,940	46,340	206,221
Printing and publications	15,206	10,028	51,748	76,982	23,272	23,604	36,526	83,402
Donated goods and services	249,006	6,156	90,629	345,791	59,007	4,607	84,446	148,060
Miscellaneous	31,786	986	56,568	89,340	43,437	20,818	52,192	116,447
Total functional expenses before depreciation	133,752,701	843,534	2,738,380	137,334,615	134,009,879	831,862	2,436,387	137,278,128
Depreciation	1,007,437	9,914	26,677	1,044,028	1,072,535	6,712	15,625	1,094,872
Total functional expenses	<u>\$ 134,760,138</u>	<u>\$ 853,448</u>	<u>\$ 2,765,057</u>	<u>\$ 138,378,643</u>	<u>\$ 135,082,414</u>	<u>\$ 838,575</u>	<u>\$ 2,452,012</u>	<u>\$ 138,373,001</u>

# Northern Illinois Food Bank

## Statement of Cash Flows

	Year Ended	
	June 30, 2017	June 30, 2016
<b>Cash Flows from Operating Activities</b>		
Cash and cash equivalents received from contributions and grants	\$ 12,329,380	\$ 12,472,639
Cash and cash equivalents received from program services	7,110,216	8,036,989
Cash paid to suppliers and employees	(17,436,524)	(17,429,818)
Net cash and cash equivalents provided by operating activities	2,003,072	3,079,810
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(467,113)	(813,457)
Proceeds from sale of property and equipment	25,000	32,550
Purchase of investments	(1,457,969)	(2,792,377)
Proceeds from sale of investments	1,293,606	2,194,093
Net cash and cash equivalents used in investing activities	(606,476)	(1,379,191)
<b>Cash Flows from Financing Activities</b>		
Principal payments on tax-exempt revenue bonds	(398,553)	(398,551)
Prepayment of principal on tax-exempt revenue bonds in deposit account	-	(400,000)
Net cash and cash equivalents used in financing activities	(398,553)	(798,551)
<b>Net Increase in Cash</b>	998,043	902,068
<b>Cash and Cash Equivalents - Beginning of year</b>	6,457,565	5,555,497
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 7,455,608</b>	<b>\$ 6,457,565</b>

# 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, 2017	June 30, 2016
Change in net assets	\$ (114,543)	\$ (3,266,064)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,051,444	1,102,288
Gain on sale of property and equipment	(25,000)	(12,520)
Net realized and change in unrealized loss on investments	50,200	(24,026)
Decrease in provision for uncollectible accounts	(10,063)	(1,725)
Noncash contribution of property and equipment	(17,100)	(59,450)
Noncash donated goods and services	(118,056,613)	(114,321,980)
Noncash donated goods and services expense	119,450,681	119,490,058
(Increase) decrease in operating assets:		
Accounts receivable	(7,019)	(23,290)
Grants receivable	(455,729)	172,910
Contributions receivable	21,856	(186,794)
Purchased inventory	(257,977)	272,125
Prepaid expenses	(7,272)	2,225
Accounts payable	274,379	(19,797)
Accrued expenses	85,076	(51,774)
Due to agencies	20,752	7,624
Net cash and cash equivalents provided by operating activities	<u>\$ 2,003,072</u>	<u>\$ 3,079,810</u>

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2017 and 2016

### 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 member 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) inventory.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2017 and 2016

### **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 more closely approximates 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. The Food Bank also used this methodology for the year ended June 30, 2017.

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 and 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 and changes in net assets 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.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2017 and 2016

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

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

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 \$362,903 and \$207,509 in fiscal years 2017 and 2016, respectively. The Food Bank has also recorded \$118,056,613 and \$114,321,980 of donated food in fiscal years 2017 and 2016, 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.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2017 and 2016

### **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.

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including October 26, 2017, which is the date the financial statements were available to be issued.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2017 and 2016

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

**Upcoming Accounting Changes** - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods: retrospectively to each period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Food Bank will most likely adopt the cumulative catch-up transition method if implementation of the standard does not result in a significant adjustment. Management is currently evaluating the contracts in place to determine the full impact the standard will have and plans to complete prior to the implementation date.

In February 2016, the Financial Accounting Standards Board issued ASU No. 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 new lease standard is expected to have an effect on the the Food Bank's financial statements as a result of the leases for warehouse and office space classified as operating leases. The Food Bank expects long-term assets and lease liabilities to increase upon adoption; however, the effects on the changes in net assets are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2017 and 2016

### Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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 that 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 new standard is expected to have an effect on the Food Bank's financial statements. The Food Bank expects changes in presentation on the financial statements; however, the standard will not have any effect on operations.

### Note 2 - Change in Accounting Principle

On July 1, 2016, the Food Bank adopted new guidance related to the presentation of bond issuance costs in its statement of financial position. Under the new guidance, bond issuance costs are reported as a direct deduction from the carrying amount of the related debt. Previously, bond issuance costs were presented as an asset. The new presentation requirements have been applied retrospectively and amounts reported in the 2016 statement of financial position have been restated as follows:

#### Statement of Financial Position June 30, 2016

	As Computed Under Old Method	As Reported Under New Method	Effect of Change
Assets - Bond issuance costs	\$ 142,034	\$ -	\$ (142,034)
Liabilities - Bonds payable	\$ 8,302,942	\$ 8,160,908	\$ (142,034)

The new guidance does not affect how the bond issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt and reported as a component of interest expense.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2017 and 2016

### Note 3 - Contributions Receivable

Contributions receivable at June 30 include the following:

	<u>2017</u>	<u>2016</u>
Within one year	\$ 484,923	\$ 459,754
One to five years	<u>45,000</u>	<u>89,500</u>
Total minimum contributions receivable	529,923	549,254
Less:		
Discounts on contributions	(1,180)	(2,943)
Allowance for doubtful accounts	<u>(4,500)</u>	<u>(10,275)</u>
Net minimum contributions receivable	<u>\$ 524,243</u>	<u>\$ 536,036</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, property and equipment, and time.

### Note 4 - 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, 2017 and 2016 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, 2017 and 2016

### Note 4 - 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, 2017

	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, 2017
Investments:				
Money market funds	\$ -	\$ 203,207	\$ -	\$ 203,207
Corporate bonds and notes	-	799,438	-	799,438
Municipal securities	-	143,338	-	143,338
Preferred securities	-	54,280	-	54,280
Negotiable certificates of deposit	-	2,387,273	-	2,387,273
Total investments	<u>\$ -</u>	<u>\$ 3,587,536</u>	<u>\$ -</u>	<u>\$ 3,587,536</u>

#### 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>

The fair values of money market funds, corporate bonds and notes, municipal securities, preferred securities, and certificates of deposit at June 30, 2017 and 2016 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, 2017 and 2016

### Note 4 - Fair Value Measurements (Continued)

Not included in the above table is \$1,345,484 and \$412,517 of cash held in the investment account at June 30, 2017 and 2016, 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, 2017 and 2016, there were no such transfers.

### Note 5 - Inventory

Inventory at June 30, 2017 and 2016 is comprised of the following:

	2017		2016	
	Dollars	Pounds	Dollars	Pounds
Donated	\$ 4,471,038	2,584,415	\$ 6,040,748	3,617,214
Purchased	608,113	1,027,092	355,223	664,120
United States Department of Agriculture (Emergency Food Program)	487,157	455,112	306,429	496,083
Total inventory	<u>\$ 5,566,308</u>	<u>4,066,619</u>	<u>\$ 6,702,400</u>	<u>4,777,417</u>

### Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2017		2016		Depreciable Life - Years
Geneva building	\$ 16,305,178	\$ 16,299,018		39	
Geneva land	2,338,673	2,338,673		-	
Building and improvements	785,668	777,586		5-39	
Furniture and equipment	1,818,420	1,777,877		5-10	
Computers and software	431,233	390,595		3	
Vehicles	3,428,233	3,121,081		5	
Total cost	25,107,405	24,704,830			
Accumulated depreciation	6,745,126	5,782,735			
Net property and equipment	<u>\$ 18,362,279</u>	<u>\$ 18,922,095</u>			

Depreciation expense was \$1,044,028 for 2017 and \$1,094,872 for 2016.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2017 and 2016

### Note 7 - 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, 2017 are as follows:

Years Ending June 30	Amount
2018	\$ 398,542
2019	398,542
2020	398,542
2021	398,542
2022	398,542
Thereafter	5,511,680
Less net bond issuance costs	<u>(134,619)</u>
Bonds payable - Net	<u>\$ 7,369,771</u>

Total interest expense incurred and paid was \$196,519 and \$216,526 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 was \$7,416.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2017 and 2016

### Note 8 - 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 \$164,375 and \$167,310 for 2017 and 2016, respectively.

The Food Bank also leases vehicles and equipment on a month-to-month basis. Expense under these leases was \$53,635 and \$70,994 for 2017 and 2016, 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. The lease term for the Rockford location ends on December 31, 2024.

2018	\$ 139,497
2019	143,223
2020	62,547
2021	58,700
2022	61,200
Thereafter	<u>147,900</u>
Total	<u>\$ 613,067</u>

### Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are restricted for the following:

	<u>2017</u>	<u>2016</u>
Purpose restricted - Primarily programs	\$ 2,689,694	\$ 2,359,179
Use restriction on building:		
Expiring in 2017	-	150,493
Expiring in 2018	89,325	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>\$ 3,906,480</u>	<u>\$ 3,726,456</u>

The use restriction on building relates to forgivable mortgage notes totaling approximately \$1,215,000 and \$1,375,000 as of June 30, 2017 and 2016, 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 when each agreement ends as long as the Food Bank complies with the requirements of these notes. Management fully expects that it will.

# **Northern Illinois Food Bank**

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## **Notes to Financial Statements June 30, 2017 and 2016**

### **Note 10 - 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. For the plan year 2016, the Food Bank contributed 2 percent of considered compensation and also matched 50 percent of an employee's contribution with a maximum contribution of 2 percent.

In 2017, the Food Bank made a change to its contribution approach to the plan where the Food Bank now matches 100 percent of the first 2 percent contributed by an employee and also matches 50 percent of the next 5% of an employee's contribution with a maximum matching contribution of 4.5 percent.

For the years ended June 30, 2017 and 2016, employer contributions were \$126,674 and \$141,609, respectively.

### **Note 11 - Related Party Transactions**

The Food Bank paid \$505,002 and \$527,245 during the years ended June 30, 2017 and 2016, respectively, for food provided by a firm for whom a board member is a senior manager.