
Northern Illinois Food Bank

Financial Report
June 30, 2018

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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, 2018 and 2017 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.

Opinions

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, 2018 and 2017 and the changes in its net assets, functional expenses, and 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 25, 2018 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, 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 25, 2018

Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 3,633,694	\$ 7,455,608
Investments (Note 4)	10,246,069	4,933,020
Receivables:		
Grants receivable	751,047	739,031
Accounts receivable	117,368	121,519
Contributions receivable, net (Note 3)	397,111	524,243
Inventory (Note 5)	5,563,482	5,566,308
Prepaid expenses and other assets:		
Prepaid expenses	34,837	36,457
Deposits and coupons	5,000	5,218
Property and equipment - Net (Note 6)	18,543,366	18,362,279
Total assets	\$ 39,291,974	\$ 37,743,683
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,153,505	\$ 967,654
Accrued liabilities and other		
Due to agencies	198,450	173,504
Accrued wages	849,413	920,994
Other accrued expenses	195,567	99,258
Bonds payable - Net (Note 7)	6,978,646	7,369,771
Total liabilities	9,375,581	9,531,181
Net Assets		
Unrestricted net assets:		
Undesignated	25,849,980	23,506,022
Board designated	868,012	800,000
Temporarily restricted net assets	3,198,401	3,906,480
Total net assets	29,916,393	28,212,502
Total liabilities and net assets	\$ 39,291,974	\$ 37,743,683

Northern Illinois Food Bank

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Program service fees	\$ 4,244,706	\$ -	\$ 4,244,706	\$ 4,055,892	\$ -	\$ 4,055,892
Contributions and grants	9,978,857	3,448,437	13,427,294	9,349,174	2,968,413	12,317,587
Fees and grants from government agencies	3,876,867	-	3,876,867	3,362,720	-	3,362,720
Miscellaneous income	31,580	-	31,580	37,201	-	37,201
Donated goods and services	113,672,619	-	113,672,619	118,419,516	-	118,419,516
Investment income	340,518	-	340,518	71,184	-	71,184
Total revenue and support	132,145,147	3,448,437	135,593,584	135,295,687	2,968,413	138,264,100
Net Assets Released from Restrictions	4,156,516	(4,156,516)	-	2,788,389	(2,788,389)	-
Total revenue, support, and net assets released from restrictions	136,301,663	(708,079)	135,593,584	138,084,076	180,024	138,264,100
Expenses						
Program expenses:						
Food Bank operations	15,905,639	-	15,905,639	15,309,457	-	15,309,457
Donated food	113,568,080	-	113,568,080	119,450,681	-	119,450,681
Total program expenses	129,473,719	-	129,473,719	134,760,138	-	134,760,138
Support services:						
Management and general	1,594,203	-	1,594,203	853,448	-	853,448
Fundraising	2,821,771	-	2,821,771	2,765,057	-	2,765,057
Total expenses	133,889,693	-	133,889,693	138,378,643	-	138,378,643
Increase (Decrease) in Net Assets	2,411,970	(708,079)	1,703,891	(294,567)	180,024	(114,543)
Net Assets - Beginning of year	24,306,022	3,906,480	28,212,502	24,600,589	3,726,456	28,327,045
Net Assets - End of year	\$ 26,717,992	\$ 3,198,401	\$ 29,916,393	\$ 24,306,022	\$ 3,906,480	\$ 28,212,502

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services		Support Services		Total
	Food Bank Operations	Management and General	Fundraising		
Staff salaries	\$ 4,046,546	\$ 947,502	\$ 796,532	\$ 5,790,580	
Payroll taxes	329,023	79,961	63,000	471,984	
Health insurance	529,804	73,218	92,506	695,528	
Retirement plan	72,731	31,234	27,908	131,873	
Total salaries and related expenses	4,978,104	1,131,915	979,946	7,089,965	
Contributed food distributed	113,568,080	-	-	113,568,080	
Purchased food distributed	6,157,354	-	-	6,157,354	
Transportation	720,898	-	-	720,898	
Operating supplies	928,857	-	-	928,857	
Occupancy and utilities	288,163	14,949	14,949	318,061	
Mortgage interest	168,016	16,132	8,716	192,864	
Facility rental	203,773	-	-	203,773	
Insurance	245,049	12,020	6,852	263,921	
Equipment purchase, maintenance, and rental	118,889	264	176	119,329	
Building maintenance	221,189	11,474	11,474	244,137	
Office and technology supplies	181,327	15,732	12,717	209,776	
Agency grants	154,203	75	-	154,278	
Local travel	112,302	9,130	16,415	137,847	
Telecommunications	56,194	25,551	2,517	84,262	
Feeding America and Feeding Illinois fees	-	80,109	-	80,109	
Direct mail, promotional, and advertising	10,598	15,094	1,181,574	1,207,266	
Conferences and meetings	44,068	16,361	8,489	68,918	
Postage and shipping	540	11,150	32,421	44,111	
Staffing development	32,418	7,334	5,630	45,382	
Dues and subscriptions	48,192	6,686	73,773	128,651	
Special events	-	875	202,676	203,551	
Professional and consulting fees	164,122	138,994	26,214	329,330	
Printing and publications	16,950	9,222	51,797	77,969	
Donated goods and services	34,767	944	85,362	121,073	
Miscellaneous	38,854	39,420	69,176	147,450	
Depreciation	980,812	30,772	30,897	1,042,481	
Total functional expenses	\$ 129,473,719	\$ 1,594,203	\$ 2,821,771	\$ 133,889,693	

Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services		Support Services		Total
	Food Bank Operations	Management and General	Fundraising		
Staff salaries	\$ 4,345,061	\$ 458,323	\$ 750,452	\$ 5,553,836	
Payroll taxes	332,257	30,336	58,809	421,402	
Health insurance	629,064	27,510	105,464	762,038	
Retirement plan	96,514	10,850	19,310	126,674	
Total salaries and related expenses	5,402,896	527,019	934,035	6,863,950	
Contributed food distributed	119,450,681	-	-	119,450,681	
Purchased food distributed	5,392,848	-	-	5,392,848	
Transportation	618,223	-	-	618,223	
Operating supplies	681,969	-	-	681,969	
Occupancy and utilities	343,994	4,697	12,647	361,338	
Mortgage interest	187,086	9,971	6,878	203,935	
Facility rental	164,375	-	-	164,375	
Insurance	269,355	8,449	4,537	282,341	
Equipment purchase, maintenance, and rental	64,342	263	-	64,605	
Building maintenance	216,826	2,961	7,972	227,759	
Office and technology supplies	161,389	8,617	12,272	182,278	
Agency grants	154,247	-	-	154,247	
Local travel	101,309	5,108	17,103	123,520	
Telecommunications	42,452	21,952	2,077	66,481	
Feeding America and Feeding Illinois fees	-	88,356	-	88,356	
Direct mail, promotional, and advertising	16,447	9,410	1,187,842	1,213,699	
Conferences and meetings	34,830	8,865	5,730	49,425	
Postage and shipping	1,041	13,600	36,531	51,172	
Staffing development	39,278	3,536	7,008	49,822	
Dues and subscriptions	29,199	3,316	58,455	90,970	
Special events	-	-	183,709	183,709	
Professional and consulting fees	83,916	110,244	62,639	256,799	
Printing and publications	15,206	10,028	51,748	76,982	
Donated goods and services	249,006	6,156	90,629	345,791	
Miscellaneous	31,786	986	56,568	89,340	
Depreciation	1,007,437	9,914	26,677	1,044,028	
Total functional expenses	\$ 134,760,138	\$ 853,448	\$ 2,765,057	\$ 138,378,643	

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash and cash equivalents received from contributions and grants	\$ 12,938,189	\$ 12,329,380
Cash and cash equivalents received from program services	8,362,161	7,110,216
Cash paid to suppliers and employees	<u>(19,096,982)</u>	<u>(17,436,524)</u>
Net cash and cash equivalents provided by operating activities	2,203,368	2,003,072
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,114,188)	(467,113)
Proceeds from sale of property and equipment	56,323	25,000
Purchase of investments	(16,081,229)	(1,457,969)
Proceeds from sale of investments	<u>11,512,353</u>	<u>1,293,606</u>
Net cash and cash equivalents used in investing activities	(5,626,741)	(606,476)
Cash Flows Used in Financing Activities - Principal payments on tax-exempt revenue bonds	<u>(398,541)</u>	<u>(398,553)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(3,821,914)	998,043
Cash and Cash Equivalents - Beginning of year	<u>7,455,608</u>	<u>6,457,565</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 3,633,694</u></u>	<u><u>\$ 7,455,608</u></u>

Statement of Cash Flows (Continued)

Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities		
Increase (decrease) in net assets	\$ 1,703,891	\$ (114,543)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,049,898	1,051,444
Gain on sale of property and equipment	(20,655)	(25,000)
Net realized and change in unrealized loss on investments	(127,936)	50,200
Decrease in provision for uncollectable accounts	3,155	(10,063)
Noncash contribution of property and equipment	(145,049)	(17,100)
Noncash donated goods and services	(113,527,570)	(118,056,613)
Noncash donated goods and services expense	113,689,153	119,450,681
Noncash donated stock	(616,237)	-
Changes in operating assets and liabilities which provided (used) cash and cash equivalents:		
Accounts receivable	4,151	(7,019)
Grants receivable	(12,016)	(455,729)
Contributions receivable	123,977	21,856
Purchased inventory	(158,757)	(257,977)
Prepaid expenses	1,620	(7,272)
Accounts payable	185,851	274,379
Accrued expenses	24,728	85,076
Due to agencies	24,946	20,752
Other assets	218	-
Net cash and cash equivalents provided by operating activities	\$ 2,203,368	\$ 2,003,072

June 30, 2018 and 2017

Note 1 - Nature of Business

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.

Note 2 - 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).

Classification of Net Assets

Net assets of the Food Bank are classified based on the presence or absence of donor-imposed restrictions.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired or been fulfilled.

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements.

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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Cash Equivalents

For the purpose of the accompanying financial statements, the Food Bank considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. 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.

Donated inventory represents items donated to the Food Bank for distribution. It is valued based on a survey published by Feeding America. The Food Bank uses the aggregate wholesale value included in the survey published by Feeding America. The Food Bank uses this method, as this approximates industry norms for the value of donated food received and distributed.

Note 2 - Significant Accounting Policies (Continued)

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.

Revenue and Public Support

Unconditional promises to give cash and other assets to the Food Bank are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 restrictions.

Contributions receivable that are expected to be collected within one year are recorded 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 discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Revenue from government grants and contracts agreements is recognized as it is earned through expenditures in accordance with the agreements. Any government grants received in advance of expenditures are recorded as deferred revenue on the statement of financial position. Management determines the allowances for doubtful accounts on its grant receivables by reviewing and identifying troubled accounts on a regular basis and by using historical experience. Grant receivables are written off when deemed uncollectible. The Food Bank did not record an allowance on its grant receivables, as it expects to receive outstanding amounts due subsequent to fiscal year end.

Program service fees consist of revenue from the Food Bank's purchased and donated food program. In the purchased food program, the Food Bank buys certain commodities and generally distributes them to agencies at cost plus a shared maintenance fee. Shared maintenance is applied to both the purchased and donated food distributions in an effort to recover some of the costs of acquiring, storing, and handling the food. Purchaed food revenue and shared maintenance revenue on donated food is recognized upon the Food Bank's distribution of the food.

Investments

Investments are reported at fair value with unrealized gains and losses reported 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. The straight-line method is used for computing depreciation. Assets are depreciated 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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 \$266,122 and \$362,903 in fiscal years 2018 and 2017, respectively. The Food Bank has also recorded \$113,406,497 and \$118,056,613 of donated food in fiscal years 2018 and 2017, 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.

Income Taxes

The Food Bank is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

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.

Board-designated Net Assets

Board-designated net assets are unrestricted net assets designated by the board primarily for capital improvements. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

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. Costs have been allocated between the various programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 25, 2018, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncements

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. 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. During management's review of the various revenue streams, it was determined that program fee income may have an impact on the timing of recognizing revenue. Additionally, there will be new disclosures related to revenue from contracts with customers.

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-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 operations. 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 Food Bank's financial statements as a result of the Food Bank's operating leases, as disclosed in Note 8, that will be reported on the balance sheet at adoption. Upon adoption, the Food Bank will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations 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.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. 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 Food Bank expects there to be changes in net asset descriptions and enhanced disclosures related to liquidity and availability of resources.

June 30, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Food Bank's year ending June 30, 2020 and will be applied on a modified prospective basis. The Food Bank does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Note 3 - Contributions Receivable

Contributions receivable at June 30 include the following :

	2018	2017
Within one year	335,946	484,923
One to five years	70,000	45,000
Total minimum contributions receivable	405,946	529,923
Less:		
Discounts on contributions	(1,835)	(1,180)
Allowance for doubtful accounts	(7,000)	(4,500)
Net minimum contributions receivable	<u>\$ 397,111</u>	<u>\$ 524,243</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, 2018 and 2017 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.

June 30, 2018 and 2017

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.

<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2018</u>				
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, 2018
Assets				
Investments:				
Stocks	\$ 2,882,019	\$ -	\$ -	\$ 2,882,019
Exchange-traded and closed-end funds	1,055,024	-	-	1,055,024
Municipal bonds	-	831,725	-	831,725
Corporate fixed income	-	160,965	-	160,965
Government securities	258,522	-	-	258,522
Certificates of deposit	-	2,939,321	-	2,939,321
Mutual funds	1,941,654	-	-	1,941,654
Total investments	<u>\$ 6,137,219</u>	<u>\$ 3,932,011</u>	<u>\$ -</u>	<u>\$ 10,069,230</u>
<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2017</u>				
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
Assets				
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>

The fair values of money market funds, corporate bonds and notes, municipal securities, preferred securities, corporate fixed-income securities, and certificates of deposit at June 30, 2018 and 2017 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.

Not included in the above table is \$176,839 and \$1,345,484 of cash held in the investment account at June 30, 2018 and 2017, 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, 2018 and 2017, there were no such transfers.

Note 5 - Inventory

Inventory at June 30, 2018 and 2017 consists of the following:

	2018		2017	
	Dollars	Pounds	Dollars	Pounds
Donated	\$ 4,548,633	2,707,520	\$ 4,471,038	2,584,415
Purchased	766,869	1,701,413	608,113	1,027,092
United States Department of Agriculture (Emergency Food Program)	247,980	352,457	487,157	455,112
Total	\$ 5,563,482	\$ 4,761,390	\$ 5,566,308	\$ 4,066,619

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Geneva building	\$ 16,349,416	\$ 16,305,178	39
Geneva land	2,338,673	2,338,673	-
Building and improvements	1,438,858	785,668	5-39
Furniture and equipment	2,037,147	1,818,420	5-10
Computers and software	464,971	431,233	3
Vehicles	3,356,020	3,428,233	5
Total cost	25,985,085	25,107,405	
Accumulated depreciation	7,441,719	6,745,126	
Net property and equipment	\$ 18,543,366	\$ 18,362,279	

Depreciation and amortization expense for 2018 and 2017 was \$1,042,482 and \$1,044,028, respectively.

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.

Note 7 - Bonds Payable (Continued)

Minimum principal payments on the bonds payable to maturity as of June 30, 2018 are as follows:

Years Ending	Amount
2019	\$ 398,542
2020	398,542
2021	398,542
2022	398,542
2023	398,542
Thereafter	5,113,138
Less net bond issuance costs	<u>(127,202)</u>
Total	<u>\$ 6,978,646</u>

Total interest expense incurred and paid was \$185,448 and \$196,519 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was \$7,416.

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 \$203,773 and \$164,375 for 2018 and 2017, respectively.

The Food Bank also leases vehicles and equipment on a month-to-month basis. Expense under these leases was \$116,724 and \$53,635 for 2018 and 2017, 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. The lease term for the Joliet location ends on December 31, 2027.

Years Ending June 30	Amount
2019	\$ 155,079
2020	81,895
2021	70,700
2022	80,944
2023	124,709
Thereafter	<u>394,968</u>
Total	<u>\$ 908,295</u>

June 30, 2018 and 2017

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017 are restricted for the following purposes:

	2018	2017
Purpose restricted - Primarily programs	\$ 2,070,940	\$ 2,689,694
Use restriction on building:		
Expiring in 2018	-	89,325
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	7,875	7,875
Total temporarily restricted net assets	<u>\$ 3,198,401</u>	<u>\$ 3,906,480</u>

The use restriction on building relates to forgivable mortgage notes totaling approximately \$1,127,000 and \$1,215,000 as of June 30, 2018 and 2017, 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.

Note 10 - Retirement Plan

The Food Bank sponsors a 401(k) plan for all eligible employees. The plan provides for the Food Bank to make matching contributions. Contributions to the plan totaled \$131,872 and \$126,674 for the years ended June 30, 2018 and 2017, respectively.

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

Note 11 - Related Party Transactions

The Food Bank paid \$405,105 and \$505,002 during the years ended June 30, 2018 and 2017, respectively, for food provided by a firm for whom a board member was a senior manager.