
Northern Illinois Food Bank

Financial Report
June 30, 2019

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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, 2019 and 2018 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, 2019 and 2018 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the Food Bank adopted the provisions of Accounting Standards Update No. 2016-14 for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

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 24, 2019 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 24, 2019

Statement of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 3,929,010	\$ 3,633,694
Investments (Note 4)	11,251,013	10,246,069
Receivables:		
Grants receivable	1,190,441	751,047
Accounts receivable	107,181	117,368
Contributions receivable - Net (Note 3)	407,951	397,111
Inventory (Note 5)	5,893,368	5,563,482
Prepaid expenses and other assets:		
Prepaid expenses	64,426	34,837
Deposits and coupons	5,000	5,000
Property and equipment - Net (Note 6)	<u>17,951,725</u>	<u>18,543,366</u>
Total assets	<u>\$ 40,800,115</u>	<u>\$ 39,291,974</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,100,635	\$ 1,153,505
Accrued liabilities and other:		
Due to agencies	250,444	198,450
Accrued wages	920,091	849,413
Other accrued expenses	220,463	195,567
Bonds payable - Net (Note 7)	<u>6,587,520</u>	<u>6,978,646</u>
Total liabilities	9,079,153	9,375,581
Net Assets		
Without donor restrictions:		
Without donor restrictions	27,738,362	25,849,980
Board designated	<u>1,121,458</u>	<u>868,012</u>
Total without donor restrictions	28,859,820	26,717,992
With donor restrictions	<u>2,861,142</u>	<u>3,198,401</u>
Total net assets	<u>31,720,962</u>	<u>29,916,393</u>
Total liabilities and net assets	<u>\$ 40,800,115</u>	<u>\$ 39,291,974</u>

Northern Illinois Food Bank

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Program service fees	\$ 3,771,438	\$ -	\$ 3,771,438	\$ 4,244,706	\$ -	\$ 4,244,706
Contributions and grants	10,890,175	3,004,962	13,895,137	9,978,857	3,448,437	13,427,294
Fees and grants from government agencies	4,208,254	-	4,208,254	3,876,867	-	3,876,867
Miscellaneous income	13,769	-	13,769	31,580	-	31,580
Donated goods and services	113,477,888	-	113,477,888	113,672,619	-	113,672,619
Investment income - Net	680,727	-	680,727	305,075	-	305,075
Net assets released from restrictions	3,342,221	(3,342,221)	-	4,156,516	(4,156,516)	-
Total revenue and support	136,384,472	(337,259)	136,047,213	136,266,220	(708,079)	135,558,141
Expenses						
Program services:						
Food Bank operations	16,361,330	-	16,361,330	15,905,639	-	15,905,639
Contributed food distributed	112,787,182	-	112,787,182	113,568,080	-	113,568,080
Total program services	129,148,512	-	129,148,512	129,473,719	-	129,473,719
Support services:						
Management and general	2,102,772	-	2,102,772	1,558,760	-	1,558,760
Fundraising	2,991,360	-	2,991,360	2,821,771	-	2,821,771
Total expenses	134,242,644	-	134,242,644	133,854,250	-	133,854,250
Increase (Decrease) in Net Assets	2,141,828	(337,259)	1,804,569	2,411,970	(708,079)	1,703,891
Net Assets - Beginning of year	26,717,992	3,198,401	29,916,393	24,306,022	3,906,480	28,212,502
Net Assets - End of year	\$ 28,859,820	\$ 2,861,142	\$ 31,720,962	\$ 26,717,992	\$ 3,198,401	\$ 29,916,393

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services		Support Services		Total
	Food Bank Operations	Management and General	Fundraising		
Staff salaries	\$ 4,313,793	\$ 1,337,562	\$ 952,498	\$ 6,603,853	
Payroll taxes	353,706	105,462	74,968	534,136	
Health insurance	560,413	144,027	112,676	817,116	
Retirement plan	74,885	25,853	27,234	127,972	
Total salaries and related expenses	5,302,797	1,612,904	1,167,376	8,083,077	
Contributed food distributed	112,787,182	-	-	112,787,182	
Purchased food distributed	5,953,883	-	-	5,953,883	
Transportation	839,256	-	-	839,256	
Operating supplies	842,462	-	-	842,462	
Occupancy and utilities	315,729	17,463	16,066	349,258	
Mortgage interest	158,387	16,176	8,060	182,623	
Facility rental	224,291	-	-	224,291	
Insurance	216,127	15,393	5,425	236,945	
Equipment purchase, maintenance, and rental	103,928	364	64	104,356	
Building maintenance	225,702	12,523	11,485	249,710	
Office and technology supplies	229,821	32,386	17,295	279,502	
Agency grants	198,848	-	-	198,848	
Local travel	114,076	9,765	13,334	137,175	
Telecommunications	77,872	30,879	2,173	110,924	
Feeding America and Feeding Illinois fees	-	87,283	-	87,283	
Direct mail, promotional, and advertising	22,093	25,849	1,064,493	1,112,435	
Conferences and meetings	40,283	23,876	13,040	77,199	
Postage and shipping	1,465	14,541	47,368	63,374	
Staffing development	41,011	6,305	9,715	57,031	
Dues and subscriptions	49,803	9,573	56,394	115,770	
Special events	1,239	450	193,040	194,729	
Professional and consulting fees	205,039	131,692	117,099	453,830	
Printing and publications	2,856	7,794	44,304	54,954	
Donated goods and services	66,519	10,299	94,689	171,507	
Miscellaneous	36,875	3,624	79,320	119,819	
Depreciation	1,090,968	33,633	30,620	1,155,221	
	123,845,715	489,868	1,823,984	126,159,567	
Total functional expenses	\$ 129,148,512	\$ 2,102,772	\$ 2,991,360	\$ 134,242,644	

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	51,796	77,968	
Donated goods and services	34,767	944	85,362	121,073	
Miscellaneous	38,854	3,977	69,176	112,007	
Depreciation	980,812	30,772	30,898	1,042,482	
	124,495,615	426,845	1,841,825	126,764,285	
Total functional expenses	\$ 129,473,719	\$ 1,558,760	\$ 2,821,771	\$ 133,854,250	

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash and cash equivalents received from contributions and grants	\$ 13,741,584	\$ 12,938,189
Cash and cash equivalents received from program services	7,868,897	8,362,161
Cash paid to suppliers and employees	<u>(19,919,889)</u>	<u>(19,096,982)</u>
Net cash and cash equivalents provided by operating activities	1,690,592	2,203,368
Cash Flows from Investing Activities		
Purchase of property and equipment	(562,580)	(1,114,188)
Proceeds from sale of property and equipment	4,000	56,323
Purchase of investments	(3,183,356)	(16,081,229)
Proceeds from sale of investments	<u>2,745,202</u>	<u>11,512,353</u>
Net cash and cash equivalents used in investing activities	(996,734)	(5,626,741)
Cash Flows Used in Financing Activities - Principal payments on tax-exempt revenue bonds	<u>(398,542)</u>	<u>(398,541)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	295,316	(3,821,914)
Cash and Cash Equivalents - Beginning of year	<u>3,633,694</u>	<u>7,455,608</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 3,929,010</u></u>	<u><u>\$ 3,633,694</u></u>
Reconciliation of Increase in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities		
Increase in net assets	\$ 1,804,569	\$ 1,703,891
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	1,162,637	1,049,898
Gain on sale of property and equipment	(4,000)	(20,655)
Net realized and change in unrealized loss on investments	(424,077)	(127,936)
Decrease in provision for uncollectible accounts	(8,835)	3,155
Noncash contribution of property and equipment	(1,000)	(145,049)
Noncash donated goods and services	(113,476,888)	(113,527,570)
Noncash donated goods and services expense	112,958,689	113,689,153
Noncash donated stock	(142,713)	(616,237)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	10,187	4,151
Grants receivable	(439,394)	(12,016)
Contributions receivable	(2,005)	123,977
Purchased inventory	188,313	(158,757)
Prepaid expenses	(29,589)	1,620
Accounts payable	(52,870)	185,851
Accrued expenses	95,574	24,728
Due to agencies	51,994	24,946
Other assets	-	218
Net cash and cash equivalents provided by operating activities	<u><u>\$ 1,690,592</u></u>	<u><u>\$ 2,203,368</u></u>

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 900 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.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Food Bank.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Food Bank or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Cash and 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.

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

Note 2 - Significant Accounting Policies (Continued)

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 with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 the 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. Purchased 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 support without donor restrictions 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 support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The Food Bank recorded in-kind contributions that included special event items, miscellaneous services and supplies, and fixed assets in the amount of \$172,507 and \$266,122 in fiscal years 2019 and 2018, respectively. The Food Bank has also recorded \$113,305,381 and \$113,406,497 of donated food in fiscal years 2019 and 2018, 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 AmeriCorps 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 net assets without donor restrictions 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 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)

The expenses that are allocated include the following:

- Salaries and benefits - Salary allocation
- Occupancy and utilities - Square footage
- Mortgage interest - Square footage
- Insurance - Square footage
- Building maintenance - Square footage
- Local travel - Salary allocation
- Telecommunications - Salary allocation
- Conferences and meetings - Salary allocation
- Office and technology supplies - Headcount
- Staffing development - Headcount
- Dues and subscriptions - Headcount and square footage
- Professional and consulting fees - Headcount
- Miscellaneous - Headcount
- Depreciation - Headcount and square footage

New Accounting Pronouncement

For the year ended June 30, 2019, applied retrospectively to all years presented, the Food Bank adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified into two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Food Bank, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general expenses and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated as follows: management and general expenses have decreased by \$35,443 from the amount previously reported, with a corresponding decrease in investment income.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued 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 using one of two retrospective application methods. The Food Bank plans to apply the standard using the modified retrospective method. During management's review of the various revenue streams, it was determined that program fee income will not have a significant impact on the timing of revenue recognition. Additionally, there will be new disclosures related to revenue from contracts with customers.

The 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, 2022 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 statement of financial position 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 June 2018, the FASB issued ASU 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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 24, 2019, which is the date the financial statements were available to be issued.

Note 3 - Contributions Receivable

Contributions receivable at June 30 include the following:

	2019	2018
Within one year	\$ 407,951	\$ 335,946
One to five years	-	70,000
Total minimum contributions receivable	407,951	405,946
Less:		
Discounts on contributions	-	(1,835)
Allowance for doubtful accounts	-	(7,000)
Net minimum contributions receivable	\$ 407,951	\$ 397,111

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, 2019 and 2018 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.

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.

June 30, 2019 and 2018

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2019				
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, 2019
Assets				
Investments:				
Stocks	\$ 3,206,183	\$ -	\$ -	\$ 3,206,183
Exchange-traded and closed-end funds	1,191,402	-	-	1,191,402
Municipal bonds	-	840,970	-	840,970
Corporate fixed income	-	320,956	-	320,956
Government securities	-	415,494	-	415,494
Certificates of deposit	-	3,063,378	-	3,063,378
Mutual funds	1,949,013	-	-	1,949,013
Total investments	\$ 6,346,598	\$ 4,640,798	\$ -	\$ 10,987,396
Assets Measured at Fair Value on a Recurring Basis at June 30, 2018				
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	\$ 5,878,697	\$ 4,190,533	\$ -	\$ 10,069,230

Not included in the above tables is \$263,617 and \$176,839 of cash held in the investment account at June 30, 2019 and 2018, respectively.

The fair values of municipal bonds, corporate fixed income securities, government securities, and certificates of deposit at June 30, 2019 and 2018 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.

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, 2019 and 2018, there were no such transfers.

Note 5 - Inventory

Inventory at June 30, 2019 and 2018 consists of the following:

	2019		2018	
	Dollars	Pounds	Dollars	Pounds
Donated	\$ 3,350,082	2,067,952	\$ 4,548,633	2,707,520
Purchased	578,556	1,057,814	766,869	1,701,413
United States Department of Agriculture (Emergency Food Program)	1,964,730	1,471,443	247,980	352,457
Total	<u>\$ 5,893,368</u>	<u>4,597,209</u>	<u>\$ 5,563,482</u>	<u>4,761,390</u>

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - Years
Geneva building	\$ 16,349,416	\$ 16,349,416	39
Geneva land	2,338,673	2,338,673	-
Building and improvements	1,623,112	1,438,858	5-39
Furniture and equipment	2,204,033	2,037,147	5-10
Computers and software	487,509	464,971	3
Vehicles	3,454,411	3,356,020	5
Total cost	26,457,154	25,985,085	
Accumulated depreciation	<u>8,505,429</u>	<u>7,441,719</u>	
Net property and equipment	<u>\$ 17,951,725</u>	<u>\$ 18,543,366</u>	

Depreciation and amortization expense for 2019 and 2018 was \$1,155,221 and \$1,042,481, 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 City.

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, 2019 are as follows:

Years Ending	Amount
2020	\$ 398,542
2021	398,542
2022	398,542
2023	398,542
2024	398,542
Thereafter	4,714,596
Less net bond issuance costs	<u>(119,786)</u>
Total	<u>\$ 6,587,520</u>

Total interest expense incurred and paid was \$175,207 and \$185,448 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 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 \$224,291 and \$203,773 for 2019 and 2018, respectively.

The Food Bank also leases vehicles and equipment on a month-to-month basis. Expense under these leases was \$119,126 and \$116,724 for 2019 and 2018, 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. Subsequent to year end, an extension was signed whereby the Park City lease now ends on August 31, 2022. 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
2020	\$ 155,367
2021	158,867
2022	169,112
2023	139,404
2024	129,704
Thereafter	<u>265,264</u>
Total	<u>\$ 1,017,718</u>

Note 9 - Net Assets

Net assets as of June 30, 2019 and 2018 are with donor restrictions for the following purposes:

	2019	2018
Purpose restricted - Primarily programs	\$ 1,367,531	\$ 1,687,425
Purpose restricted - Use on building		
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 purpose restricted - Use on building	1,127,461	1,127,461
Time and purpose restricted - Primarily programs	366,150	383,515
Total net assets with donor restrictions	\$ 2,861,142	\$ 3,198,401

The use restriction on building relates to forgivable mortgage notes totaling approximately \$1,127,000 as of June 30, 2019 and 2018. These mortgage notes, the remaining balance of which is recorded as net assets with donor restrictions, 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. Net assets released from net assets with donor restrictions totaled \$3,342,221 and \$4,156,516 as of June 30, 2019 and 2018, respectively.

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 \$127,972 and \$131,873 for the years ended June 30, 2019 and 2018, respectively.

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 \$273,936 and \$405,105 during the years ended June 30, 2019 and 2018, respectively, for food provided by a firm for whom a board member is a senior manager.

Note 12 - Liquidity and Availability of Resources

The following reflects the Food Bank's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available also include board-designated endowment funds that could be drawn upon with approval from the governing board.

June 30, 2019 and 2018

Note 12 - Liquidity and Availability of Resources (Continued)

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,929,010	\$ 3,633,694
Investments	11,251,013	10,246,069
Other receivables - Net	<u>1,705,572</u>	<u>1,265,526</u>
Financial assets - At year end	16,885,595	15,145,289
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time restrictions - Pledges collectible in one-five years	-	61,165
Restricted by donor with purpose restrictions	1,618,433	1,831,485
Board designations - Board-designated endowment funds	<u>1,121,458</u>	<u>868,012</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,145,704</u>	<u>\$ 12,384,627</u>

As part of the Food Bank's liquidity management, policy is to structure financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Food Bank invests cash in excess of daily requirements in an investment account. The Food Bank has a goal to maintain financial assets, which consist of cash, investments, and receivables, on hand to meet, at a minimum, 90 days of normal operating expenses, which are, on average, approximately \$5,400,000 as of June 30, 2019.

The Food Bank also realizes there could be unanticipated liquidity needs and plans accordingly.