

# **Northern Illinois Food Bank**

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**Financial Report**  
**June 30, 2013**

# 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, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors  
Northern Illinois Food Bank

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois Food Bank as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements of Northern Illinois Food Bank as of June 30, 2012 were audited by other auditors, whose report dated October 5, 2012 expressed an unqualified opinion on those statements.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 on our consideration of the Northern Illinois Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Illinois Food Bank's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 7, 2013

# Northern Illinois Food Bank

## Statement of Financial Position

	June 30, 2013			June 30, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 4,949,343	\$ 1,275,728	\$ 6,225,071	\$ 3,390,629	\$ 1,393,179	\$ 4,783,808
Investments (Note 3)	1,625,115	-	1,625,115	1,541,018	-	1,541,018
Accounts receivable:						
Grants receivable	336,576	-	336,576	232,944	21,232	254,176
Accounts receivable	99,519	-	99,519	133,560	-	133,560
Contributions receivable - Net (Note 2)	1,027	136,484	137,511	-	450,826	450,826
Inventory (Note 4)	9,562,573	-	9,562,573	5,735,273	-	5,735,273
Prepaid expenses	45,465	-	45,465	181,150	-	181,150
Bond issue costs - Net	164,282	-	164,282	123,978	-	123,978
Deposits and coupons	5,218	-	5,218	218	-	218
Property and equipment - Net	17,912,494	1,519,881	19,432,375	18,539,378	1,519,881	20,059,259
<b>Total assets</b>	<b>\$ 34,701,612</b>	<b>\$ 2,932,093</b>	<b>\$ 37,633,705</b>	<b>\$ 29,878,148</b>	<b>\$ 3,385,118</b>	<b>\$ 33,263,266</b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities</b>						
Accounts payable	\$ 502,774	\$ -	\$ 502,774	\$ 324,139	\$ -	\$ 324,139
Bonds payable (Note 6)	9,498,577	-	9,498,577	9,965,000	-	9,965,000
Accrued liabilities and other:						
Due to agencies	165,168	-	165,168	73,242	-	73,242
Accrued wages	785,974	-	785,974	547,156	-	547,156
Accounts payable for capital projects	-	-	-	10,101	-	10,101
Other accrued expenses	90,344	-	90,344	182,254	-	182,254
<b>Total liabilities</b>	<b>11,042,837</b>	<b>-</b>	<b>11,042,837</b>	<b>11,101,892</b>	<b>-</b>	<b>11,101,892</b>
<b>Net Assets</b>						
Unrestricted:						
Undesignated	22,867,327	-	22,867,327	17,984,808	-	17,984,808
Board designated	791,448	-	791,448	791,448	-	791,448
Temporarily restricted	-	2,932,093	2,932,093	-	3,385,118	3,385,118
<b>Total net assets</b>	<b>23,658,775</b>	<b>2,932,093</b>	<b>26,590,868</b>	<b>18,776,256</b>	<b>3,385,118</b>	<b>22,161,374</b>
<b>Total liabilities and net assets</b>	<b>\$ 34,701,612</b>	<b>\$ 2,932,093</b>	<b>\$ 37,633,705</b>	<b>\$ 29,878,148</b>	<b>\$ 3,385,118</b>	<b>\$ 33,263,266</b>

# Northern Illinois Food Bank

## Statement of Activities and Changes in Net Assets

	Year Ended									
	June 30, 2013					June 30, 2012				
	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	\$ 7,067,380	\$ -	\$ 7,067,380	\$ 2,208,302	\$ 9,275,682	\$ 6,447,594	\$ -	\$ 6,447,594	\$ 2,697,625	\$ 9,145,219
Fees and grants from government agencies	2,707,443	-	2,707,443	103,827	2,811,270	2,623,146	-	2,623,146	246,232	2,869,378
Program service fees	4,531,378	-	4,531,378	-	4,531,378	4,587,419	-	4,587,419	-	4,587,419
Donated goods and services	207,431	92,759,516	92,966,947	-	92,966,947	251,732	67,192,233	67,443,965	-	67,443,965
Investment income	77,704	-	77,704	-	77,704	42,618	-	42,618	-	42,618
Rental income	-	-	-	-	-	8,560	-	8,560	-	8,560
Miscellaneous income	28,344	-	28,344	-	28,344	406,367	-	406,367	-	406,367
<b>Total revenue and support</b>	<b>14,619,680</b>	<b>92,759,516</b>	<b>107,379,196</b>	<b>2,312,129</b>	<b>109,691,325</b>	<b>14,367,436</b>	<b>67,192,233</b>	<b>81,559,669</b>	<b>2,943,857</b>	<b>84,503,526</b>
Net assets released from restrictions	2,765,154	-	2,765,154	(2,765,154)	-	3,903,281	-	3,903,281	(3,903,281)	-
<b>Total revenue, support, and net assets released from restrictions</b>	<b>17,384,834</b>	<b>92,759,516</b>	<b>110,144,350</b>	<b>(453,025)</b>	<b>109,691,325</b>	<b>18,270,717</b>	<b>67,192,233</b>	<b>85,462,950</b>	<b>(959,424)</b>	<b>84,503,526</b>
<b>Expenses</b>										
Program services - Food Bank operations	13,694,402	88,788,647	102,483,049	-	102,483,049	12,511,047	66,991,190	79,502,237	-	79,502,237
Support services: Management and general	789,921	-	789,921	-	789,921	734,094	-	734,094	-	734,094
Fundraising	1,988,861	-	1,988,861	-	1,988,861	1,643,604	-	1,643,604	-	1,643,604
<b>Total expenses</b>	<b>16,473,184</b>	<b>88,788,647</b>	<b>105,261,831</b>	<b>-</b>	<b>105,261,831</b>	<b>14,888,745</b>	<b>66,991,190</b>	<b>81,879,935</b>	<b>-</b>	<b>81,879,935</b>
<b>Increase (Decrease) in Net Assets</b>	<b>911,650</b>	<b>3,970,869</b>	<b>4,882,519</b>	<b>(453,025)</b>	<b>4,429,494</b>	<b>3,381,972</b>	<b>201,043</b>	<b>3,583,015</b>	<b>(959,424)</b>	<b>2,623,591</b>
<b>Net Assets - Beginning of year</b>	<b>13,621,664</b>	<b>5,154,592</b>	<b>18,776,256</b>	<b>3,385,118</b>	<b>22,161,374</b>	<b>10,239,692</b>	<b>4,953,549</b>	<b>15,193,241</b>	<b>4,344,542</b>	<b>19,537,783</b>
<b>Net Assets - End of year</b>	<b>\$ 14,533,314</b>	<b>\$ 9,125,461</b>	<b>\$ 23,658,775</b>	<b>\$ 2,932,093</b>	<b>\$ 26,590,868</b>	<b>\$ 13,621,664</b>	<b>\$ 5,154,592</b>	<b>\$ 18,776,256</b>	<b>\$ 3,385,118</b>	<b>\$ 22,161,374</b>

# Northern Illinois Food Bank

## Statement of Functional Expenses

	June 30, 2013				June 30, 2012			
	Program Services	Support Services		Total	Program Services	Support Services		Total
	Food Bank Operations	Management and general	Fundraising		Food Bank Operations	Management and general	Fundraising	
Staff salaries	\$ 3,507,535	\$ 429,757	\$ 488,242	\$ 4,425,534	\$ 3,216,206	\$ 358,200	\$ 447,456	\$ 4,021,862
Payroll taxes	272,989	30,721	39,287	342,997	255,426	26,873	35,807	318,106
Health insurance	465,736	27,738	47,867	541,341	427,272	22,967	33,205	483,444
Retirement plan	92,704	10,432	10,241	113,377	78,770	7,086	8,353	94,209
Total salaries and related expenses	4,338,964	498,648	585,637	5,423,249	3,977,674	415,126	524,821	4,917,621
Contributed food distributed	88,788,647	-	-	88,788,647	66,991,190	-	-	66,991,190
Purchased food distributed	5,488,282	-	-	5,488,282	4,753,904	-	-	4,753,904
Transportation	635,178	-	-	635,178	601,164	-	-	601,164
Operating supplies	377,622	-	-	377,622	313,470	-	-	313,470
Occupancy and utilities	282,795	2,318	4,636	289,749	365,223	3,844	6,760	375,827
Mortgage interest	335,281	2,748	5,496	343,525	342,334	3,603	6,336	352,273
Facility rental	101,787	-	-	101,787	97,615	-	-	97,615
Insurance	265,656	7,319	3,218	276,193	217,200	7,065	2,339	226,604
Equipment purchase, maintenance, and rental	57,172	4,465	-	61,637	74,729	1,181	11,528	87,438
Building maintenance	114,767	941	1,981	117,689	245,270	13,826	6,331	265,427
Office and technology supplies	108,089	10,885	15,009	133,983	80,940	32,360	18,619	131,919
Agency grants	199,836	-	-	199,836	72,698	-	-	72,698
Local travel	72,628	4,302	11,015	87,945	77,589	3,152	7,671	88,412
Telecommunications	43,399	27,675	2,452	73,526	44,679	21,806	2,142	68,627
Feeding America and Feeding Illinois fees	-	36,608	-	36,608	-	52,495	-	52,495
Direct mail, promotional, and advertising	38,204	57,572	935,566	1,031,342	14,905	29,810	821,777	866,492
Conferences and meetings	13,904	2,999	1,944	18,847	17,482	7,197	8,235	32,914
Postage and shipping	3,629	17,563	25,445	46,637	676	33,332	2,292	36,300
Staffing development	30,242	4,117	3,972	38,331	25,311	14,400	6,136	45,847
Dues and subscriptions	11,019	9,075	41,723	61,817	12,010	10,577	22,772	45,359
Special events	-	-	102,696	102,696	1	-	95,801	95,802
Professional and consulting fees	46,439	61,996	50,709	159,144	95,390	63,756	18,228	177,374
Printing and publications	25,929	17,950	55,489	99,368	8,497	1,502	31,297	41,296
Donated goods and services	92,588	4,203	83,716	180,507	149,832	307	5,568	155,707
Miscellaneous	31,959	3,798	38,786	74,543	20,077	2,799	25,880	48,756
Total functional expenses before depreciation and amortization	101,504,016	775,182	1,969,490	104,248,688	78,599,860	718,138	1,624,533	80,942,531
Depreciation and amortization	979,033	14,739	19,371	1,013,143	902,377	15,956	19,071	937,404
Total functional expenses	<b>\$ 102,483,049</b>	<b>\$ 789,921</b>	<b>\$ 1,988,861</b>	<b>\$ 105,261,831</b>	<b>\$ 79,502,237</b>	<b>\$ 734,094</b>	<b>\$ 1,643,604</b>	<b>\$ 81,879,935</b>

# Northern Illinois Food Bank

## Statement of Cash Flows

	Year Ended	
	June 30, 2013	June 30, 2012
<b>Cash Flows from Operating Activities</b>		
Cash received from support and revenue	\$ 17,154,431	\$ 16,898,000
Cash paid for operating expenses	(14,768,317)	(13,859,737)
Net cash provided by operating activities	2,386,114	3,038,263
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(363,944)	(7,916,500)
Proceeds from sale of property and equipment	8,000	9,311
Purchase of investments	(1,361,970)	(6,796,505)
Proceeds from sale of investments	1,285,281	12,605,207
Net cash used in investing activities	(432,633)	(2,098,487)
<b>Cash Flows from Financing Activities</b>		
Payments for debt issuance costs	(45,795)	-
Principal payments on tax exempt revenue bonds	(466,423)	(1,155,000)
Net cash used in financing activities	(512,218)	(1,155,000)
<b>Net Increase (Decrease) in Cash</b>	1,441,263	(215,224)
<b>Cash - Beginning of year</b>	4,783,808	4,999,032
<b>Cash - End of year</b>	<u>\$ 6,225,071</u>	<u>\$ 4,783,808</u>

# 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, 2013	June 30, 2012
Change in net assets	\$ 4,429,494	\$ 2,623,591
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,013,143	937,404
Gain on sale of property and equipment	(8,000)	(196,408)
Net realized and change in unrealized (gain) loss on investments	(7,407)	29,283
Decrease in provision for uncollectible accounts	(4,836)	(14,792)
Noncash contribution of property and equipment	(26,925)	(96,025)
Noncash donated goods and services	(92,759,516)	(67,347,942)
Noncash donated goods and services expense	88,788,647	67,146,897
Decrease (increase) in operating assets:		
Accounts receivable	34,041	9,791
Grants receivable	(82,400)	132,464
Contributions receivable	318,151	(107,573)
Purchased inventory	143,569	(105,664)
Prepaid expenses	135,685	2,445
Other assets	(5,000)	-
Accounts payable	178,635	(138,394)
Accrued expenses	146,907	177,512
Due to agencies	91,926	(14,326)
Net cash provided by operating activities	<u>\$ 2,386,114</u>	<u>\$ 3,038,263</u>

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2013 and 2012

### Note I - Nature of Activities and Significant Accounting Policies

**Nature of Organization** - Northern Illinois Food Bank (the "Food Bank") was organized as a not-for-profit corporation under the laws of the State of Illinois on September 15, 1982. The Food Bank is a member of Feeding America (formerly America's Second Harvest), the nation's food bank network. Northern Illinois Food Bank leads the northern Illinois community in solving hunger by providing nutritious meals to those in need through innovative programs and partnerships. Food manufacturers, local groceries, corporations, foundations, and individuals come together to donate food and funds, and evaluate and repack food for distribution to the Food Bank's partner feeding programs that, in turn, provide the food to hungry people in the community. More than 60,000 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.

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

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2013 and 2012

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

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

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

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

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

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

The Food Bank reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, 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, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, 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.

**Fair Value of Financial Instruments** - A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

- **Financial Instruments** - The fair values of financial instruments, including cash equivalents, accounts receivable, inventory, prepaid expenses, deposits and coupons, and accrued liabilities, approximate the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2013 and 2012

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

- **Investments** - Investments are recorded at fair value in the accompanying financial statements. Fair value is determined based on their fair value measurement principles described in Note 3.
- **Bonds Payable** - The fair value of the bonds payable approximates the carrying amounts in the accompanying financial statements. The carrying value of the debt approximates fair value based on current borrowing rates.

**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 donated office space, special event items, miscellaneous services and supplies, and fixed assets during fiscal year 2013 in the amount of \$207,431. The Food Bank recorded in-kind contributions, which included donated office space, special event items miscellaneous services and supplies, and fixed assets during fiscal year 2012 in the amount of \$251,732. The Food Bank has also recorded \$92,759,516 and \$67,192,233 of donated food in fiscal years 2013 and 2012, respectively. 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.

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.

In 2013, the Food Bank became 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's 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.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2013 and 2012

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

**Federal Income Taxes** - The Food Bank is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Food Bank and recognize a tax liability if the Food Bank has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the organization, and has concluded that as of June 30, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Food Bank is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

**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.

**Inventory** - Inventory, which consists of food and other supplies, is stated at the lower of cost or market, by use of the first-in, first-out (FIFO) method of valuation. Donated inventory is valued based on a survey published by Feeding America.

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

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including October 7, 2013, which is the date the financial statements were available to be issued.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2013 and 2012

### Note 2 - Contributions Receivable

Contributions receivable at June 30 include the following:

	<u>2013</u>	<u>2012</u>
Years ending June 30:		
Within one year	\$ 159,113	\$ 388,047
One to five years	<u>41,621</u>	<u>125,106</u>
Total minimum contributions receivable	200,734	513,153
Less:		
Discounts on contributions	(362)	(4,303)
Allowance for doubtful accounts	<u>(62,861)</u>	<u>(58,024)</u>
Net minimum contributions receivable	<u>\$ 137,511</u>	<u>\$ 450,826</u>

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

### Note 3 - Fair Value Measurements

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

The following tables present information about the Food Bank's assets measured at fair value on a recurring basis at June 30, 2013 and 2012 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.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2013 and 2012

### Note 3 - Fair Value Measurements (Continued)

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

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

	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, 2013
Investments:				
Money market funds	\$ -	\$ 491,320	\$ -	\$ 491,320
Certificates of deposit	-	21,040	-	21,040
Equities	6,424	-	-	6,424
Corporate bonds and notes	-	767,881	-	767,881
Municipal securities	-	163,027	-	163,027
Exchange traded funds	74,250	-	-	74,250
Preferred securities	-	101,173	-	101,173
Total investments	<u>\$ 80,674</u>	<u>\$ 1,544,441</u>	<u>\$ -</u>	<u>\$ 1,625,115</u>

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2012

	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, 2012
Investments:				
Money market funds	\$ -	\$ 356,071	\$ -	\$ 356,071
Corporate bonds and notes	-	879,058	-	879,058
Municipal securities	-	163,343	-	163,343
Preferred securities	-	142,546	-	142,546
Total investments	<u>\$ -</u>	<u>\$ 1,541,018</u>	<u>\$ -</u>	<u>\$ 1,541,018</u>

The fair value of money market funds, certificates of deposit, corporate bonds and notes, and municipal securities at June 30, 2013 was 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 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, 2013 and 2012, there were no such transfers.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2013 and 2012

### Note 4 - Inventory

Inventory at June 30, 2013 and 2012 is comprised of the following:

	<u>2013</u>	<u>2012</u>
Donated	\$ 8,133,586	\$ 5,020,350
Purchased	437,114	580,681
United States Department of Agriculture (Emergency Food Program)	<u>991,873</u>	<u>134,242</u>
Total inventory	<u>\$ 9,562,573</u>	<u>\$ 5,735,273</u>

### Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	<u>2013</u>	<u>2012</u>	<u>Depreciable Life - Years</u>
Geneva building	\$ 15,437,161	\$ 15,324,867	39
Geneva land	2,338,673	2,338,673	-
Building and improvements	676,830	703,760	5-39
Furniture and equipment	1,627,450	1,572,889	5-10
Computers	295,709	271,695	3
Vehicles	<u>2,141,071</u>	<u>1,951,270</u>	5
Total cost	22,516,894	22,163,154	
Accumulated depreciation	<u>3,084,519</u>	<u>2,103,895</u>	
Net property and equipment	<u>\$ 19,432,375</u>	<u>\$ 20,059,259</u>	

Interest was capitalized in the amount of \$0 for the year ended June 30, 2013. Interest was capitalized in the amount of \$62,396, which was net of the interest earned of \$13,037 for the year ended June 30, 2012.

Depreciation expense was \$1,007,651 for 2013 and \$932,088 for 2012.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2013 and 2012

### Note 6 - Bonds Payable

Bonds payable consist of the following:

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.

On May 9, 2013, the Food Bank and the bond-holder entered into a modification agreement reducing the interest rate from 3.65 percent to 2.50 percent. 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, 2013 are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2014	\$ 398,542
2015	398,542
2016	398,542
2017	398,542
2018	398,542
Thereafter	<u>7,505,867</u>
Total	<u>\$ 9,498,577</u>

The fair value of variable rate bonds payable approximates their carrying amount because the current effective rates reflect market rates.

Total interest expense incurred and paid was \$343,525 and \$352,273 for the years ended June 30, 2013 and 2012, 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 year ended June 30, 2013 and 2012 was \$5,491 and \$5,316, respectively.

# Northern Illinois Food Bank

## Notes to Financial Statements June 30, 2013 and 2012

### Note 7 - Operating Leases

The Food Bank leases their branch location facilities, which expire at various dates through January 2014, with options to renew. Facility rental expense under these leases was \$101,787 and \$97,615 for 2013 and 2012, respectively.

The Food Bank also leases vehicles and equipment on a month-to-month basis. Expense under these leases was \$28,750 and \$103,523 for 2013 and 2012, respectively.

The future minimum lease payments due under the terms of the operating leases is \$281,939. The lease term for the Park City location ends August 31, 2016. The lease term for the Love's Park location ends January 31, 2014.

### Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are restricted for the following:

	2013	2012
Construction of new facility	\$ 86,581	\$ 472,058
Purpose restricted, primarily programs	1,325,631	1,393,179
Use restriction on building:		
Expiring in 2016	303,097	303,097
Expiring in 2018	89,323	89,323
Expiring in 2021	50,000	50,000
Expiring in 2023	65,466	65,466
Expiring in 2029	329,120	329,120
Expiring in 2031	250,000	250,000
Expiring in 2032	432,875	432,875
Total temporarily restricted net assets	<u>\$ 2,932,093</u>	<u>\$ 3,385,118</u>

### Note 9 - Retirement Plan

The Food Bank participates in a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. The plan covers all eligible employees and is subject to a vesting schedule for employer contributions. The Food Bank contributes annually 2 percent of considered compensation and also matches 50 percent of an employee's contribution with a maximum matching contribution of 2 percent. For the years ended June 30, 2013 and 2012, employer contributions were \$113,377 and \$94,209, respectively.

# Northern Illinois Food Bank

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## Notes to Financial Statements June 30, 2013 and 2012

### Note 10 - Related Party Transactions

There were no related party transactions for the year ended June 30, 2013. An architectural firm owned by a board member provided architectural services to the Food Bank and received \$19,369 in fees for the year ended June 30, 2012.

A company with a board member as a managing partner provided event management services to the Food Bank and received \$2,252 in management fees for the year ended June 30, 2012.

### Note 11 - Supplemental Noncash Flow Information

Listed below are noncash disclosures relating to investing and financing activities for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Property and equipment additions in accounts payable at year end	\$ -	\$ 10,101
Proceeds from sale of property used to pay off bonds	-	880,000