

INTERFAITH COMMUNITY SERVICES

AUDITED FINANCIAL STATEMENTS
Year ended June 30, 2011

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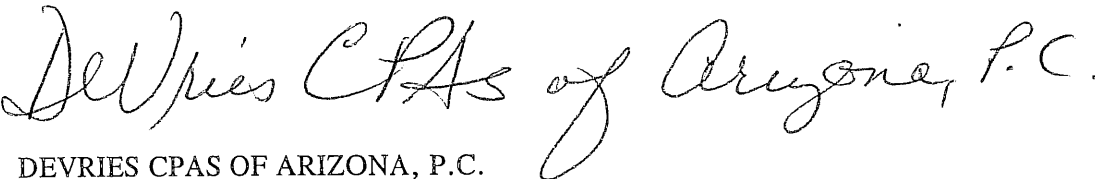
INDEPENDENT AUDITORS' REPORT

Board of Directors
Interfaith Community Services
Tucson, Arizona

We have audited the accompanying statement of financial position of Interfaith Community Services (an Arizona nonprofit corporation) as of June 30, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interfaith Community Services as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


DEVRIES CPAS OF ARIZONA, P.C.

September 19, 2011

Integrity is the highest form of service.

INTERFAITH COMMUNITY SERVICES
STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS

Current assets:	
Cash and cash equivalents available for operations	\$ 378,748
Current pledges receivable - Notes 4 and 12	175,825
Grants receivable	29,399
Current in-kind contribution receivable - Notes 5 and 10	9,840
Food box inventory	24,709
Prepaid expenses	<u>5,021</u>
Total current assets	623,542
Cash and cash equivalents restricted for long-term purposes:	
Endowments	16,022
Building fund food bank	<u>139,505</u>
	155,527
Long-term endowment pledges receivable, net of allowance and discount to present value - Notes 4 and 12	32,126
Investments restricted for endowments - Notes 3 and 12	1,547,228
Beneficial interest in fund held at Community Foundation for Southern Arizona - Notes 3 and 12	24,459
Long-term in-kind contribution receivable - Notes 5 and 10	111,475
Property and equipment - Note 6	<u>614,799</u>
	<u>\$ 3,109,156</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 22,564
Accrued payroll and related taxes	<u>53,202</u>
	75,766
Net assets:	
Unrestricted:	
Expended for property and equipment	614,799
Available for operations	<u>352,281</u>
	967,080
Temporarily restricted - Notes 7 and 11	637,759
Permanently restricted - Notes 8 and 11	<u>1,428,551</u>
	<u>3,033,390</u>
	<u>\$ 3,109,156</u>

See Accompanying Notes.

INTERFAITH COMMUNITY SERVICES
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Totals</u>
Public support and revenues:				
Congregational support	\$ 142,824	\$ 73,093		\$ 215,917
General contributions	353,751	61,626	\$ 173,348	588,725
Contributions - food bank building		363,420		363,420
Estates and bequests	2,250			2,250
Government grants	408,351			408,351
Grants	31,275	81,325		112,600
Service income - mobile meals	96,844			96,844
In-kind contributions - Note 9	1,351,679	5,777		1,357,456
Special events, net of \$21,392 direct benefit to donor costs	33,974			33,974
Investment income, net of fees - Note 3	9,565	260,988		270,553
Other income	4,404			4,404
	<u>2,434,917</u>	<u>846,229</u>	<u>173,348</u>	<u>3,454,494</u>
Releases from restrictions	<u>365,203</u>	<u>(365,203)</u>		<u>0</u>
Total revenues	2,800,120	481,026	173,348	3,454,494
Expenses:				
Program services	2,217,754			2,217,754
Administration	236,808			236,808
Fundraising	201,500			201,500
Total expenses	<u>2,656,062</u>	<u>0</u>	<u>0</u>	<u>2,656,062</u>
Change in net assets	144,058	481,026	173,348	798,432
Net assets, beginning of year, as restated - Note 14	804,377	175,378	1,255,203	2,234,958
Reclassification for deficient funds	<u>18,645</u>	<u>(18,645)</u>		<u>0</u>
Net assets, end of year	<u>\$ 967,080</u>	<u>\$ 637,759</u>	<u>\$ 1,428,551</u>	<u>\$ 3,033,390</u>

See Accompanying Notes.

INTERFAITH COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2011

	Financial assistance	Food bank	Caregiving services	Health advocacy	Mobile meals	Outreach education	Volunteer services	Total program services	Adminis- tration	Fundraising	Total
Salaries and wages	\$ 90,778	\$ 15,196	\$ 52,216	\$ 53,736	\$ 39,177	\$ 56,635	\$ 8,950	\$ 316,688	\$ 146,143	\$ 118,436	\$ 581,267
Payroll taxes and related	6,983	1,142	3,913	4,136	2,987	4,161	683	24,005	11,852	9,884	45,741
Benefits	7,053	1,118	4,448	2,163	2,422	7,092	885	25,181	12,963	10,875	49,019
	<u>104,814</u>	<u>17,456</u>	<u>60,577</u>	<u>60,035</u>	<u>44,586</u>	<u>67,888</u>	<u>10,518</u>	<u>365,874</u>	<u>170,958</u>	<u>139,195</u>	<u>676,027</u>
Client expenses:											
Food boxes		920,781						920,781			920,781
Mobile meal trays					77,783			77,783			77,783
Prescription expense	7,402							7,402			7,402
Shelter expense	134,029							134,029			134,029
Utility assistance	321,124							321,124			321,124
Other client expense	72,897							72,897			72,897
Depreciation	6,107	5,232	1,562	1,297	1,297	2,409	882	18,786	3,759	2,268	24,813
Insurance	1,392	1,193	356	422	297	549	1,786	5,995	3,255	517	9,767
Lease expense	5,955	2,849	850	706	706	1,312	480	12,858	2,047	1,235	16,140
Miscellaneous expense	576	1,328	295	654	425	5,923	1,032	10,233	13,317	7,287	30,837
Office expense	6,702	4,265	5,519	2,757	2,886	3,771	2,576	28,476	5,528	5,181	39,185
Postage	1,031	704	905	484	658	2,700	113	6,595	805	6,242	13,642
Printing	690	952	193	119	193	2,812	112	5,071	458	29,733	35,262
Professional services	123	479	799	52	73	2,051	3,029	6,606	28,102	1,337	36,045
Repairs and maintenance	1,157	1,583	382	267	259	469	316	4,433	799	630	5,862
Supplies	2,835	2,114	1,194	892	2,232	1,839	1,924	13,030	4,748	5,698	23,476
Telephone	3,125	614	789	521	514	338	99	6,000	723	679	7,402
Travel	1,168	421	702	1,030	1,156	1,727	205	6,409	415	356	7,180
Utilities	3,076	2,636	787	653	654	1,214	445	9,465	1,894	1,142	12,501
Volunteer mileage reimbursement							183,907	183,907			183,907
Total expenses	<u>674,203</u>	<u>962,607</u>	<u>74,910</u>	<u>69,889</u>	<u>133,719</u>	<u>95,002</u>	<u>207,424</u>	<u>\$ 2,217,754</u>	<u>236,808</u>	<u>201,500</u>	<u>2,656,062</u>
Cost of direct donor benefits netted against special event revenues										21,392	21,392
Investment fees netted against investment income - Note 3									6,123		6,123
Total functional expenses	<u>\$ 674,203</u>	<u>\$ 962,607</u>	<u>\$ 74,910</u>	<u>\$ 69,889</u>	<u>\$ 133,719</u>	<u>\$ 95,002</u>	<u>\$ 207,424</u>	<u>\$ 2,217,754</u>	<u>\$ 242,931</u>	<u>\$ 222,892</u>	<u>\$ 2,683,577</u>

See Accompanying Notes.

INTERFAITH COMMUNITY SERVICES
STATEMENT OF CASH FLOWS
Year ended June 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ 798,432
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	24,813
Change in allowance for uncollectible endowment pledges	(2,805)
Change in food box inventory	(16,027)
Change in discount on endowment pledges	4,583
Change in discount on in-kind contribution receivable	4,063
Realized (gains) on investments	(300)
Unrealized (gains) on investments	(227,951)
Change in value of fund held at Community Foundation for Southern Arizona	(4,332)
(Increase) decrease in operating assets:	
Accounts receivable	20,810
Grants receivable	1,687
Prepaid expenses	(537)
Increase (decrease) in operating liabilities:	
Accounts payable	(7,178)
Accrued payroll and related taxes	15,046
Less contributions restricted for long-term purposes	(536,768)
Net cash provided by operating activities	<u>73,536</u>
Cash flows from investing activities:	
Proceeds from sale of investments	9,639
Proceeds from distribution of fund held at Community Foundation for Southern Arizona	1,009
Purchases of investments	(294,170)
Purchases of property and equipment	(73,915)
Net cash (used in) investing activities	<u>(357,437)</u>
Cash flows from financing activities:	
Collections of pledges for long-term purposes	85,428
Contributions to endowments	173,348
Contributions for food bank building	213,420
Net cash provided by financing activities	<u>472,196</u>
Change in cash and cash equivalents	188,295
Cash and cash equivalents, beginning of year	345,980
Cash and cash equivalents, end of year	<u>\$ 534,275</u>
<u>Supplementary cash flow information:</u>	
No cash paid for interest or income taxes in 2011.	
Cash and cash equivalents consisted of the following:	
Cash and cash equivalents available for operations	\$ 378,748
Cash and cash equivalents restricted for long-term purposes	155,527
Total cash and cash equivalents	<u>\$ 534,275</u>

See Accompanying Notes.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – Organization

Interfaith Community Services (ICS) is an Arizona nonprofit corporation, incorporated in 1985. ICS is a non-sectarian faith-based organization with a network of member faith communities that provides services to disadvantaged people, disabled individuals and seniors through its financial assistance, food bank, caregiving services, health advocacy, mobile meals, outreach education and volunteer services programs. Funding for ICS comes primarily from contributions from affiliated congregations, individual donations, grants and special events.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

ICS is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

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

Cash and cash equivalents

ICS considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. ICS maintains its cash in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. Uninsured cash at June 30, 2011 was \$222,672.

One grantor requires ICS to maintain grant funds in a separate bank account. ICS was in compliance with this requirement for the year ended June 30, 2011.

Pledges receivable

Pledges receivable consist of both unconditional promises to give and conditional promises to give. Unconditional promises to give are recognized as receivables and revenues in the period in which ICS is notified in writing by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable.

Inventory

Inventory consists of food boxes donated to ICS, and is valued based on the retail price of the box contents.

Property and equipment

Purchased property and equipment are carried at cost. Donated equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. ICS capitalizes all expenditures for equipment in excess of \$1,000 with a useful life of more than one year.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 2 – Summary of significant accounting policies – continued

Contributions/restricted revenue

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. See Note 9. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although ICS may utilize the services of outside volunteers, the fair value of these services has not been recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Endowments

ICS' endowments consist of funds held at Community Foundation for Southern Arizona (Founders Endowment) and at a brokerage (ICS Endowment). As required by generally accepted accounting principles, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the Act). The Board of Directors of ICS has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ICS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, ICS considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Advertising

Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2011 were \$2,676 and are included in miscellaneous expense on the statement of functional expenses.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 2 – Summary of significant accounting policies – continued

Income tax status

ICS is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to ICS' tax-exempt purpose may be subject to taxation as unrelated business income. In addition, ICS qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(11) and is classified as an organization other than a private foundation under Section 509(a)(1).

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 740-10 (ASC 740-10), ICS holds no uncertain tax positions and, therefore, has no policy for evaluating them. ICS' Form 990, *Return of Organization Exempt from Income Taxes*, and Arizona Form 99, *Arizona Exempt Organization Annual Information Return*, are generally subject to examination by the IRS and the Arizona Department of Revenue, respectively, for four years after the date filed.

NOTE 3 – Investments

Investments consisted of the following for the year ended June 30, 2011:

Global equity funds	\$ 1,034,159
Bond funds	458,940
Public real estate funds	54,129
	<u>\$ 1,547,228</u>

In addition, ICS is the beneficiary in a fund held at Community Foundation for Southern Arizona (CFSA) totaling \$24,459 at June 30, 2011. Investment income consisted of the following for the year ended June 30, 2011:

Realized gains	\$ 300
Unrealized gains	227,951
Interest and dividends	44,093
Change in value of beneficial interest in fund held at CFSA	4,332
Fees	(6,123)
	<u>\$ 270,553</u>

NOTE 4 – Pledges receivable

Pledges receivable at June 30, 2011 consisted of the following:

	<u>Pledges</u>	<u>Allowance for uncollectible pledges</u>	<u>5% discount to present value</u>	<u>Total</u>
Receivable in less than one year:				
Endowment pledges	\$ 25,825			\$ 25,825
Building fund pledges	150,000			150,000
Current pledges receivable	175,825			175,825
Receivable in one to five years -				
Endowment pledges	40,000	\$ (3,291)	\$ (4,583)	32,126
	<u>\$ 215,825</u>	<u>\$ (3,291)</u>	<u>\$ (4,583)</u>	<u>\$ 207,951</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 5 - In-kind contribution receivable - land lease

ICS leases land from a member church for \$1 per year with a value of \$9,840 per year. The lease, which is dated August 2009, has an initial term of 20 years and is renewable at the option of ICS for an additional 20 years.

At the signing of the lease, ICS reported the fair value of the contribution and a corresponding contribution receivable. Fair value was calculated by discounting the estimated annual fair rental value of \$9,840 for twenty years at an estimated risk free rate of 5%.

Each year thereafter, the receivable is reduced by rent expense and is increased by annual discount amortization, which is reported as in-kind contribution revenue in the statement of activities.

A schedule of future in-kind rent expense and corresponding allowance for discount to present value at June 30, 2011 follows:

In-kind rent expense to be recognized during the year ended June 30:			
	2012	\$	9,840
	2013		9,840
	2014		9,840
	2015		9,840
	2016		9,840
	Thereafter		<u>129,215</u>
			178,415
Less discount to net present value at 5%			(57,100)
Total in-kind contribution receivable for land lease		\$	<u><u>121,315</u></u>

See Notes 7 and 10 for additional information regarding the in-kind contribution for the land lease.

NOTE 6 - Property and equipment

Property and equipment at June 30, 2011 consisted of the following:

Building and improvements			\$ 614,550
Furniture and equipment			58,729
Software			4,200
Construction in process			<u>72,915</u>
			750,394
Less accumulated depreciation			<u>(135,595)</u>
		\$	<u><u>614,799</u></u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 7 – Temporarily restricted net assets

Temporarily restricted net asset activity was as follows during the year ended June 30, 2011:

	Beginning balance	Contributions	Investment income	Releases/ appropri- ations	Reclassification for fund deficiencies	Ending balance
Food bank operations	\$ 0	\$ 38,621		\$ (38,621)		\$ 0
Mobile meals	0	7,322		(7,322)		0
Financial assistance	0	143,901		(143,901)		0
Health advocacy	50,000	26,000		(66,170)		9,830
Caregiving services	0	200		(200)		0
Building fund - food bank	0	363,420		(73,915)		289,505
Facilities - Note 5	125,378	5,777		(9,840)		121,315
Endowment earnings temporarily restricted until appropriated:						
ICS endowment	0		\$ 256,656	(24,225)	\$ (18,463)	213,968
Founders endowment	0		4,332	(1,009)	(182)	3,141
	<u>0</u>	<u>0</u>	<u>260,988</u>	<u>(25,234)</u>	<u>(18,645)</u>	<u>217,109</u>
	<u>\$ 175,378</u>	<u>\$ 585,241</u>	<u>\$ 260,988</u>	<u>\$ (365,203)</u>	<u>\$ (18,645)</u>	<u>\$ 637,759</u>

The ICS and Founders endowments each consists of a corpus that is permanently restricted and earnings which are not restricted as to purpose by the donor. Under UPMIFA, accumulated earnings on the endowments are temporarily restricted until appropriated by the Board of Directors (see Note 2 – *Endowments*). See Note 8 below for detail of the permanently restricted portion of the endowments.

NOTE 8 – Permanently restricted net assets

Permanently restricted net asset activity was as follows during the year ended June 30, 2011:

	Beginning balance	Contributions	Ending balance
ICS endowment	\$ 1,233,885	\$ 173,348	\$ 1,407,233
Founders endowment	21,318		21,318
	<u>\$ 1,255,203</u>	<u>\$ 173,348</u>	<u>\$ 1,428,551</u>

NOTE 9 – In-kind contributions

ICS received in-kind contributions which are reported as follows for the year ended June 30, 2011:

Functional expenses:	
Food boxes	\$ 912,883
Utility assistance	260,904
Volunteer mileage	111,001
Mobile meal trays	13,992
Christmas family sponsorships (other client expenses)	30,572
Lease expenses	16,140
	<u>1,345,492</u>
Change in food box inventory	16,027
Change in in-kind contribution receivable	(4,063)
	<u>1,357,456</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 9 – In-kind contributions - continued

ICS provides assistance to clients needing utility assistance by preparing a case for submittal to the appropriate funding entity. ICS interviews the client, determines qualifications, prepares the case and submits the case to the funding entity. Upon approval of a case, the funding entity (usually a government) pays the applicable utility company directly.

NOTE 10 – Related party transactions

In addition to the information in Note 5 related to the in-kind contribution for the land lease with a member church, in July 2011, ICS entered into an amended lease for this property, which permits ICS to remove a storage building owned by the church and to construct a new food bank building on the property, in exchange for the following commitments:

- The church will have access to approximately 300 square feet of storage space in ICS's new building for 3 years from date of construction completion. Subsequently, if ICS wishes to reclaim the space in their building, they must pay the church \$10,000, adjusted by the Consumer Price Index with 2011 as the base year, to compensate the church for their loss of storage space.
- ICS must repave the lower parking lot and west entryway to the property. In addition, ICS shall construct new parking spaces to replace those lost to the footprint of their new building, to ensure a minimum of 60 parking spaces in total. Management estimates that the cost of repaving and parking space construction will be approximately \$37,000. In the event that it is not feasible to construct new parking spaces sufficient to bring the total number of spaces to 60, ICS must reimburse the church \$750 for each lost parking space below the 60 space minimum. All repaving and parking space construction is to be completed by December 31, 2015.

ICS also occupies space in a building owned by another member church at no cost per year with a value of \$6,300 per year, provided on a year-to-year basis.

NOTE 11 – Endowments

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, accumulated deficiencies of this nature that are reported in unrestricted net assets were \$0 at June 30, 2011.

Return objectives and risk parameters

ICS has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a net average annual total return, over the long term, equal to the change in the consumer price index plus 5%.

Investment strategies

To satisfy its long-term rate-of-return objectives, ICS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 11 – Endowments – continued

Spending policies

ICS has a board approval spending policy that allows the operating fund to receive and recognize investment earnings originating from the endowment fund. As of June 30, 2011, the Board approved spending policy allowed for appropriation equal to 5% of the average value of the endowment over the prior three years. However, the annual amount available for distribution shall not cause the principal amount of the endowment to fall below the original contributions made to the endowment after adjusting for inflation. As a result, the actual amount available to support operations in any one year may be less than 5%.

Endowment fund net assets

Net assets in the endowment funds consisted of the following at June 30, 2011:

	Unrestricted fund deficiencies	Temporarily restricted	Permanently restricted	Total
Beginning balance	\$ (18,645)	\$ 0	\$ 1,255,203	\$ 1,236,558
Contributions			173,348	173,348
Realized gains		300		300
Unrealized gains		227,951		227,951
Interest and dividends		34,528		34,528
Fees		(6,123)		(6,123)
Change in value of beneficial interest in fund held at CFSA		4,332		4,332
Appropriations		(25,234)		(25,234)
Reclassification for fund deficiencies	18,645	(18,645)		0
Ending balance	<u>\$ 0</u>	<u>\$ 217,109</u>	<u>\$ 1,428,551</u>	<u>\$ 1,645,660</u>

NOTE 12 – Fair value measurements

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. The fair value hierarchy distinguishes between market participant assumptions and ICS’ own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are ICS’ own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of ICS’ marketable securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. ICS does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The fair value of pledges receivable is estimated using an interest rate which approximates the present value of future cash flows. Investments held at CFSA are considered Level 3, because ICS owns units of pooled funds held at CFSA, and relies on CFSA to provide the value of those funds. At CFSA, these pooled investments are primarily held in mutual funds and are considered to be Level 1.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011

NOTE 12 – Fair value measurements – continued

Fair value of Level 3 assets measured on a non-recurring basis at June 30, 2011 consisted of pledges receivable, net of allowance for uncollectible pledges and discount to present value, valued at \$207,951.

Fair value of assets measured on a recurring basis at June 30, 2011 consisted of the following:

Marketable securities (Level 1)	\$	1,547,228
Beneficial interest in fund held at CFSA (Level 3)		24,459
	\$	<u>1,571,687</u>

Fair value of Level 3 assets measured on a recurring basis at June 30, 2011 using significant unobservable inputs consisted of pooled investments held at CFSA with the following activity:

Fair value at beginning of year	\$	21,136
Change in value		4,332
Distributions		(1,009)
Fair value at end of year	\$	<u>24,459</u>

NOTE 13 – Operating leases

ICS leases office equipment under a non-cancelable lease that expires in March 2012. Lease expense for the year ended June 30, 2011 was \$4,563. Future minimum payments required in the year ending June 30, 2012 will be \$2,097.

NOTE 14 – Prior period adjustment

During the year ended June 30, 2011, the following corrections were made to the net assets as of June 30, 2010:

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Total</u>
Balance at June 30, 2010, as originally reported	\$ 791,610	\$ 25,000	\$ 1,236,558	\$ 2,053,168
Understatement of grants receivable		25,000		25,000
Overstatement of accrued expenses	23,730			23,730
Understatement of food box inventory	7,682			7,682
Understatement of in-kind contribution receivable		125,378		125,378
Reclassification of fund deficiencies	(18,645)		18,645	0
Balance at June 30, 2010, as restated	<u>\$ 804,377</u>	<u>\$ 175,378</u>	<u>\$ 1,255,203</u>	<u>\$ 2,234,958</u>

NOTE 15 – Subsequent events

Subsequent events have been evaluated through September 19, 2011, which is the date the financial statements were available to be issued.