



**THE VOICE OF FOOD RETAIL** 

**FOOD MARKETING INSTITUTE  
AND AFFILIATE**

**Consolidated Financial Statements and Supplemental  
Information**

*For the Year Ended December 31, 2012*

*(With Summarized Financial Information for the Year Ended December 31, 2011)*



**and  
Report Thereon**



**FOOD MARKETING INSTITUTE AND AFFILIATE**

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**For the Year Ended December 31, 2012**

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**FOR REVIEW & DISCUSSION**  
**PURPOSES ONLY**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Food Marketing Institute and Affiliate

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the Food Marketing Institute and its affiliate, the Food Marketing Institute Foundation (collectively referred to as the Institute), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2012, 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.

## **Other Matters**

### *Report on Summarized Comparative Information*

We have previously audited the Institute's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Report on Consolidating Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in supplemental schedules is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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**Raffa, P.C.**

Washington, DC  
**Report Date**

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**December 31, 2012**

**(With Summarized Financial Information for the Year Ended December 31, 2011)**

	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,140,134	\$ 1,877,591
Accounts receivable	1,055,186	879,319
Inventory	30,517	105,486
Prepaid expenses and deposits	1,009,284	1,527,301
Total Current Assets	3,235,121	4,389,697
Investments	43,277,304	39,849,461
Property and equipment, net	2,423,666	2,069,733
Insurance policy proceeds receivable	1,629,607	1,629,607
<b>TOTAL ASSETS</b>	<b>\$ 50,565,698</b>	<b>\$ 47,938,498</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,284,833	\$ 1,215,157
Accrued pension obligation, current portion	1,439,127	1,394,051
Obligations for postretirement health benefits, current portion	98,852	122,496
Accrued employee benefits	1,125,987	748,436
Deferred revenue		
Membership dues	1,690,879	1,390,632
Registration fees	1,756,628	1,626,057
Sponsorships	420,593	108,799
Exhibit sales	699,503	3,500,796
Participation fees	486,088	663,396
Total Deferred Revenue	5,053,691	7,289,680
Pass-through funds	888,400	888,400
Obligations under capital leases, current portion	47,250	44,995
Notes payable, current portion	749,172	675,665
Deferred rent and lease incentive, current portion	211,869	182,629
Total Current Liabilities	10,899,181	12,561,509
Accrued pension obligation, net of current portion	17,138,450	13,231,675
Obligations to current employees	300,405	828,294
Obligations for postretirement health benefits, net of current portion	2,329,705	2,114,331
Obligations under capital leases, net of current portion	92,861	140,112
Notes payable, net of current portion	256,391	945,563
Deferred rent and lease incentive, net of current portion	1,524,193	1,736,062
<b>TOTAL LIABILITIES</b>	<b>32,541,186</b>	<b>31,557,546</b>
Net Assets		
Unrestricted	18,024,512	16,380,952
<b>TOTAL NET ASSETS</b>	<b>18,024,512</b>	<b>16,380,952</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 50,565,698</b>	<b>\$ 47,938,498</b>

The accompanying notes are an integral part of these consolidated financial statements.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	2012	2011
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Operating Revenue and Support:		
Conventions	\$ 10,034,650	\$ 3,961,420
Membership	8,314,142	7,885,524
Safe Quality Foods Institute	4,008,821	2,924,869
Educational activities	3,652,219	4,462,092
Food safety program	916,783	668,161
Special legislative projects	610,048	910,831
Other revenue	171,742	388,116
Affinity programs	139,643	217,099
Research	47,076	119,998
Investment income, net	39,572	88,235
Total Operating Revenue and Support	27,934,696	21,626,345
Operating Expenses:		
Program expenses:		
Conventions	6,047,894	2,223,128
Safe Quality Foods Institute	3,828,888	3,122,406
Public affairs	3,713,651	3,353,317
Education activities	3,731,473	4,263,600
Industry relations	2,047,150	1,641,733
Membership	1,792,382	1,683,271
Food safety program	1,496,129	1,169,505
Communications	1,355,293	1,255,352
Special legislative projects	313,990	910,830
Research	202,875	341,946
Affinity programs	26,570	20,998
Total Program Expenses	24,556,295	19,986,086
Supporting expenses:		
General and administrative activities	653,910	1,006,042
Total Operating Expenses	25,210,205	20,992,128
Change in net assets from operations	2,724,491	634,217
Nonoperating activities:		
Pension-related changes other than net periodic pension cost	(5,757,094)	(6,340,379)
Investment income including gains and losses, net	4,676,163	517,777
<b>CHANGE IN NET ASSETS</b>	1,643,560	(5,188,385)
NET ASSETS, BEGINNING OF YEAR	16,380,952	21,569,337
NET ASSETS, END OF YEAR	\$ 18,024,512	\$ 16,380,952

The accompanying notes are an integral part of these consolidated financial statements.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,643,560	\$ (5,188,385)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	701,549	738,762
Realized and unrealized gain on investments, net	(4,551,850)	(360,609)
Changes in assets and liabilities:		
Accounts receivable	(175,867)	(146,448)
Inventory	74,969	39,260
Prepaid expenses and deposits	518,017	(463,513)
Accounts payable and accrued expenses	69,676	1,517
Accrued employee benefits	398,983	296,352
Deferred revenue	(2,235,989)	2,616,266
Pass-through funds	-	(50,000)
Deferred rent and lease incentive	(182,629)	(154,101)
Accrued pension obligation	3,906,775	5,571,044
Obligations to current and former employees	(527,889)	(126,405)
Obligations for postretirement health benefits	215,374	(767,629)
	<u>(145,321)</u>	<u>2,006,111</u>
<b>NET CASH PROVIDED (USED IN) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,055,482)	(813,168)
Purchase of investments	(1,473,922)	(1,586,787)
Investment income, including gains and losses, net	2,597,929	1,278,236
	<u>68,525</u>	<u>(1,121,719)</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of obligations under note payable	(615,665)	(454,863)
Payments of obligations under capital leases	(44,996)	(144,151)
	<u>(660,661)</u>	<u>(599,014)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(737,457)	285,378
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,877,591	1,592,213
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,140,134</u>	<u>\$ 1,877,591</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	<u>\$ 98,157</u>	<u>\$ 136,385</u>

The accompanying notes are an integral part of these consolidated financial statements.

## FOOD MARKETING INSTITUTE AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

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#### 1. Organization and Summary of Significant Accounting Policies

##### **Organization**

The Food Marketing Institute (FMI) is a not-for-profit corporation conducting programs in research, education, industry relations and public affairs on behalf of its members. FMI's membership consists of food retailers and wholesalers and their suppliers in the United States and around the world. FMI was founded in 1977. Its activities are funded primarily through membership dues, convention exhibit sales and conference registration fees.

The Food Marketing Institute Foundation (the Foundation), an affiliated organization, is under common management with FMI, as its Board of Directors (the Board) is composed of individuals appointed by FMI's Executive Committee. The Foundation was established by FMI in February 1996 to pursue charitable, educational, or scientific purposes by conducting or supporting activities for the benefit of, or to carry out, the purposes of FMI. These activities are funded primarily through contributions.

The Food Marketing Institute and its affiliate, the Food Marketing Institute Foundation are collectively referred to as the Institute. The Institute supports FoodPAC, an unincorporated political action committee, which is registered under the Federal Election Campaign Act of 1971 (as amended). The Institute covers the administrative costs of FoodPAC and provides certain services without reimbursement. FoodPAC is not consolidated with the Institute, as FoodPAC is immaterial to the consolidated statement of financial position and results of activities of the Institute as of and for the year ended December 31, 2012.

##### **Principles of Consolidation**

Generally accepted accounting principles require that not-for-profit organizations having control over, and an economic interest in, another not-for-profit organization consolidate their financial statements. Therefore, FMI has consolidated its financial statements with those of the Foundation. FMI and the Foundation are collectively referred to as the Institute.

During 2012, FMI charged the Foundation an administrative fee of \$171,198 as reimbursement for salaries, benefits and other expenses incurred by FMI on the Foundation's behalf. Additionally, FMI pays certain costs on behalf of the Foundation for which FMI is later reimbursed. These intercompany transactions have been eliminated in consolidation in the Institute's accompanying consolidated financial statements.

##### **Cash and Cash Equivalents**

The Institute considers all highly liquid investments including money market funds and short-term marketable securities with an average maturity of 90 days or less at the initial purchase date to be cash equivalents. Market values for money market funds and short-term marketable securities are based on quoted market prices as reported to the Institute by its investment custodians.

## FOOD MARKETING INSTITUTE AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

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#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **Investments**

Investments consist of cash and cash equivalents held for investment purposes, mutual funds, common stocks and a bond fund. Investments are recorded in the accompanying consolidated financial statements at their fair value, as based upon quoted market prices, as of December 31, 2012. Fair value is the price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date.

##### **Fair Value of Financial Instruments**

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, as of and for the year ended December 31, 2012, the Institute has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of and for the year ended December 31, 2012, only the Institute's investments, as described in Note 2 of these consolidated financial statements, were measured at fair value on a recurring basis.

##### **Property and Equipment**

Office furniture and equipment are depreciated using the straight-line method over their estimated useful lives, which range from five to ten years. Computer software and hardware costs are amortized using the straight-line method over a three- or five-year useful life. Capital lease equipment and leasehold improvements are amortized using the straight-line method over the shorter of the useful life or remaining term of the lease.

## FOOD MARKETING INSTITUTE AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

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#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **Classification of Net Assets**

Unrestricted net assets represent the portion of expendable funds that are available for support of operations.

##### **Revenue and Expense Recognition**

Convention, conference, meeting and seminar revenue is recognized in the period in which the activities are held. Accordingly, registration, exhibit and related fees received in advance of the related convention, conference, meeting or seminar are reflected as deferred revenue in the accompanying consolidated statement of financial position.

Members of the Institute pay dues on a self-assessment basis using the dues structure approved by the Board. Membership dues are recognized as revenue in the applicable dues period. Consequently, membership dues received in advance of the membership dues period are deferred.

Unrestricted contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. The Institute reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are met in the same year the contributions are received are reported as unrestricted. Unless restricted by the donor, investment income from temporarily restricted net assets is recorded as unrestricted. The Institute had no temporary restricted net assets as of December 31, 2012.

Revenue from other sources is recognized as it is earned.

Except for staff compensation, expenses directly related to conventions, conferences, meetings, and seminars are included in the consolidated statement of activities in the period in which the activities are held. Staff salaries related to conventions, conferences, meetings, and seminars are expensed when incurred. Accordingly, direct expenses paid in advance for conventions, conferences, meetings and seminars that have not been held as of December 31, 2012, are reflected as prepaid expenses in the accompanying consolidated statement of financial position. Research and development costs for educational programs are included in the consolidated statement of activities as incurred.

##### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on the staff salaries charged to each program or activity

## FOOD MARKETING INSTITUTE AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

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#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **Use of Estimates**

The preparation of consolidated 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Measure of Operations**

The Institute considers all net realized and unrealized gains and losses on long-term investments, 50% of interest and dividends earned on long-term investments, and all investment expenses to be nonoperating activities. All other revenues and expenses are considered to be operating activities, with the exception of certain pension adjustments.

#### 2. Investments

As of December 31, 2012, the Institute's investments are summarized as follows:

Mutual funds – equities	\$ 22,515,548
Domestic fixed income – bond fund	13,329,616
Common stocks	6,807,567
Cash and cash equivalents	<u>624,573</u>
Total	<u>\$ 43,277,304</u>

The Institute considers all investments to be long-term investments. The Institute segregates investment earnings (losses) between investment earnings for operations and investment earnings on long-term investments. Earnings on cash and cash equivalents are included in operating revenue.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

2. Investments (continued)

Investment earnings (losses) are summarized as follows for the year ended December 31, 2012:

Investment earnings – operating:	
Interest and dividends	\$ 39,572
Investment earnings – nonoperating:	
Interest and dividends	359,231
Realized gains	646,310
Unrealized gains	3,905,540
Investment expenses	<u>(234,918)</u>
Long-Term Investment Income, Net	<u>4,676,163</u>
Total Investment Gain, Net	<u>\$ 4,715,735</u>

The Institute's investments, as classified in the fair value hierarchy, are as follows as of December 31, 2012:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 624,573	\$ 624,573	\$ -	\$ -
Mutual funds – equities:				
Diversified capital	7,856,730	7,856,730	-	-
Strategy fund	7,204,696	7,204,696	-	-
Bank loan	5,137,354	5,137,354	-	-
World allocation	2,199,667	2,199,667	-	-
Others	90,790	90,790	-	-
Large value	22,143	22,143	-	-
Foreign large growth	4,168	4,168	-	-
Common stocks:				
Technology industry	1,304,541	1,304,541	-	-
Consumer goods industry	1,242,739	1,242,739	-	-
Industrial goods industry	1,147,415	1,147,415	-	-
Service industry	1,012,750	1,012,750	-	-
Financial industry	882,062	882,062	-	-
Basic material industry	648,862	648,862	-	-
Health-care industry	569,198	569,198	-	-
Domestic fixed income – bond fund	<u>13,329,616</u>	<u>-</u>	<u>13,329,616</u>	<u>-</u>
Total	<u>\$43,277,304</u>	<u>\$29,947,688</u>	<u>\$13,329,616</u>	<u>\$-</u>

Continued

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

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3. Property and Equipment and Related Depreciation and Amortization

The Institute held the following property and equipment as of December 31, 2012:

Computer software	\$ 2,670,929
Leasehold improvements	2,595,537
Furniture, fixtures and equipment	1,375,098
Capital lease equipment	<u>193,180</u>
Total Property and Equipment	6,834,744
Less: Accumulated Depreciation and Amortization	<u>(4,411,078)</u>
Property and Equipment, Net	<u>\$ 2,423,666</u>

Depreciation and amortization expense was \$701,549 for the year ended December 31, 2012.

4. Commitments and Risks

**Operating Leases and Notes Payable**

The Institute relocated its headquarters to Crystal City, Virginia, under a 12-year noncancelable operating lease in December 2006. The Institute also rents various other field office facilities in locations throughout the United States through agreements expiring at various dates through 2018. Under accounting standards generally accepted in the United States, abated rent and other concessions are recognized on a straight-line base over the term of the lease, with the difference between the straight-line and cash basis being amortized ratably over the term of the lease. The deferred rent relating to the Crystal City lease was approximately \$960,642 and is reflected as a liability as of December 31, 2012.

Under generally accepted accounting principles (GAAP), deferred rent and lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the actual lease payments as required by the lease agreement is reflected as deferred rent and lease incentives in the accompanying consolidated statement of financial position.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2012**

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4. Commitments and Risks (continued)

**Operating Leases and Notes Payable (continued)**

The following is a summary of the future minimum lease payments covering these operating leases:

<u>For the Year Ending</u> <u>December 31,</u>	
2013	\$ 1,198,870
2014	1,228,842
2015	1,259,563
2016	1,291,052
2017	1,323,328
Thereafter	<u>1,356,410</u>
Total	<u>\$ 7,658,065</u>

Rent expense under these leases was \$1,222,474 for the year ended December 31, 2012, and is included in office and equipment rental expense in the accompanying schedule of consolidating operating revenue and expenses.

During 2006, the Institute terminated its lease for its previous office at Metropolitan Square in Washington, DC, and assigned the lease obligation through the end of the lease period to a new third party tenant. The Institute entered into a note payable agreement with Metropolitan Square in the amount of approximately \$4,300,000 for the difference between their original lease payments and the new tenant's lease payments. Under the terms of the agreement, the face amount of the note was increased in December 2007 based upon estimated operating costs from 2007. The note is interest free and management imputed interest at 6%. The note is payable in monthly installments of various amounts through May 1, 2014. The current payment is \$60,974 as of December 31, 2012.

As part of the agreement with Metropolitan Square, the Institute entered into an irrevocable letter of credit of \$1,670,134 with a bank for the outstanding amount of the note payable for the year ended December 31, 2012. The Institute annually renews this letter of credit agreement.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

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4. Commitments and Risks (continued)

**Operating Leases and Notes Payable (continued)**

As of December 31, 2012, future minimum principal payments under the term note and another note payable agreement are as follows:

<u>For the Year Ending December 31,</u>	
2013	\$ 749,172
2014	<u>256,391</u>
Total	1,005,563
Less: Current Portion	<u>(749,172)</u>
Long-Term Portion	<u>\$ 256,391</u>

Interest expense under the note agreement and letter of credit was \$73,580 for the year ended December 31, 2012.

**Hotel Contracts**

The Institute has entered into various letters of agreement for commitments for hotel accommodations for its planned conventions and meetings through 2014. In the event the Institute were to cancel these reservations or fail to use a specified percentage of the total space reserved, the Institute would be required to pay liquidated damages based upon the date the hotel was notified of the cancellation or reduction in requested rooms, as well as the hotel's ability to fill the resulting vacancies. Management of the Institute does not believe that any of these commitments will result in a loss due to liquidated damages. Accordingly, no amount for this potential liability has been reflected in the accompanying consolidated financial statements.

5. Employee Benefit Arrangements

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits**

The Institute sponsors a noncontributory defined benefit plan (the Pension Plan) that provides retirement benefits based on "considered compensation," as defined in the Pension Plan. Employees are eligible to participate in the Pension Plan upon reaching age 21 and completing at least one year of service. According to the terms of the pension investment policy, no contribution from the Institute is required if plan assets exceed the Pension Plan's total actuarial liability plus its annual service costs. The Pension Plan primarily holds equity securities and fixed-income obligations through various investment funds.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

5. Employee Benefit Arrangements (continued)

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits (continued)**

On May 5, 2007, the Institute's Board resolved to freeze the Pension Plan for all new hires, effective December 31, 2007. On April 15, 2010, the Institute's Board further resolved to freeze future benefit accruals to the Pension Plan as of May 31, 2010.

In addition to providing pension benefits, the Institute provides certain health-care benefits (the Medical Plan) for life to retired staff officers (and eligible dependents) that have a minimum of ten years of service with the Institute and retire at age 62 or later. During 2003, the Medical Plan was amended to eliminate benefits for all employees hired after December 31, 2003. During the year ended December 31, 2007, the Institute adopted the provisions of *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans* and *Employers' Accounting for Post-Retirement Benefits Other than Pensions*. The expected cost of these benefits is recognized as an expense in the consolidated financial statements during the years that the employee renders his or her services. The plan is unfunded.

The Institute has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *Compensation – Retirement Benefits*, which requires that the funded status of defined benefit pension and other postretirement plans be fully recognized in the consolidated statement of financial position. The Institute uses a measurement date of December 31 for all plans.

The following tables summarize the Pension Plan and the Medical Plan as of December 31, 2012, and set forth the benefit obligation, the fair value of plan assets, the funded status of the Institute's Pension and Medical Plans, the amounts recognized in the consolidated financial statements, and the principal weighted average assumptions:

	Pension Plan	Medical Plan
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 43,737,107	\$2,236,827
Service cost	-	188,944
Interest cost	2,047,442	94,025
Actuarial loss (gain)	5,718,473	(16,459)
Benefits paid	(1,559,718)	(74,780)
Benefit Obligation at End of Year	\$49,943,304	\$ 2,428,557

Continued

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2012**

5. Employee Benefit Arrangements (continued)

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits (continued)**

	Pension Plan	Medical Plan
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 29,111,381	\$ -
Actual return on plan assets	2,214,064	-
Employer contributions	1,600,000	74,780
Benefits paid	<u>(1,559,718)</u>	<u>(74,780)</u>
Fair Value of Plan Assets at End of Year	<u>\$ 31,365,727</u>	<u>\$ -</u>
Accrued Benefit Liability	<u>\$(18,577,577)</u>	<u>\$( 2,428,557)</u>
Amounts recognized in the consolidated statement of financial position consist of:		
Accrued benefit liabilities:		
Current (classified under accrued employee benefits)	\$ 1,439,127	\$ 98,852
Noncurrent	<u>17,138,450</u>	<u>2,329,705</u>
Total	<u>\$ 18,577,577</u>	<u>\$ 2,428,557</u>
Amounts recognized in unrestricted net assets consist of:		
Unamortized net actuarial loss	\$ 21,251,871	\$ (538,716)
Prior service cost	<u>-</u>	<u>(248,763)</u>
Total	<u>\$ 21,251,871</u>	<u>\$ (787,479)</u>

The following weighted average assumptions were used to determine benefit obligations as of December 31, 2012:

Discount rate	4.00%	4.00%
Rate of compensation increase	N/A	N/A

The following weighted average assumptions were used to determine net periodic benefit expense for the year ended December 31, 2012:

Discount rate	4.75%	4.75%
Expected long-term rate of return on plan assets	7.00%	N/A
Rate of compensation increase	N/A	N/A

Continued

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2012**

5. Employee Benefit Arrangements (continued)

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits (continued)**

The following tables set forth the components of the net benefit cost for the year ended December 31, 2012:

	Pension Plan	Medical Plan
Components of net periodic benefit cost:		
Service cost	\$ -	\$ 188,944
Interest cost	2,047,442	94,025
Expected return on plan assets	(2,234,259)	-
Amortization of prior service credit	-	(209,045)
Amortization of actuarial loss (gain)	266,803	(99,711)
Total Net Periodic Benefit Cost	\$ 79,986	\$ (25,787)
Changes in plan assets and benefit obligations recognized in other than net periodic benefit cost:		
Net actuarial loss (gain)	\$ 5,738,668	\$ (23,527)
Amortization of prior service cost	-	209,045
Amortization of actuarial loss (gain)	(266,803)	99,711
Total	\$ 5,471,865	\$ 285,229
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost in 2013:		
Net actuarial gain (loss)	\$ 480,666	\$ (42,387)
Prior service credit (cost)	-	(209,045)
Total	\$ 480,666	\$ (251,432)

As of December 31, 2012, the accumulated benefit obligation for the Pension Plan was \$49,943,304. Because the Pension Plan has been frozen, the Pension Plan's accumulated benefit obligation, as of December 31, 2012, is the same as the Pension Plan's projected benefit obligation.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

5. Employee Benefit Arrangements (continued)

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits (continued)**

The assumed health-care cost trend rates used in determining the total benefit cost and postretirement benefit obligation are as follows as of December 31, 2012:

	Postretirement Benefit Obligation
Health-care cost rate assumed for next year	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%
Years to ultimate trend rate	7

The health-care cost trend rate assumption has a significant impact on the retirees medical benefit costs and obligations. The following data show the effect of a one percentage point change in the assumed health-care cost trend rate as of and for the year ended December 31, 2012:

	Percentage Point Increase	Percentage Point Decrease
Effect on Total Benefit Cost	\$ 46,069	\$ (37,934)
Effect on Postretirement Benefit Obligation	\$ 379,272	\$ (313,895)

**Plan Assets**

The Pension Plan's investments are diversified between equities and fixed-income obligations. This diversified action is intended to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Pension Plan. Fixed-income obligations and cash equivalents are targeted at 60%, equity securities are targeted at 20%, and alternative investments are targeted at the remaining 20%. Periodic rebalancing takes place to maintain the desired asset allocation. The Institute may change these allocations at its discretion, although such changes are likely to occur infrequently. The assumed rate of return for 2012 of 7.00% was formulated by comparing historical returns for the asset classes and actual asset allocation percentages as of December 31, 2012.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

5. Employee Benefit Arrangements (continued)

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits (continued)**

*Plan Assets (continued)*

The Pension Plan's assets as of December 31, 2012, by asset category, using the fair value input measurements as outlined in Note 1 to these consolidated financial statements, was as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds:				
Short term fixed income	\$ 3,164,539	\$ 3,164,539	\$ -	\$ -
Large U.S. equities	1,842,147	-	1,842,147	-
Small/mid cap U.S. equities	1,671,302	1,671,302	-	-
International equities	3,079,869	3,079,869	-	-
Balanced/asset allocation	1,658,833	1,658,833	-	-
Bond institutional fund	3,644,603	3,644,603	-	-
Fixed income:				
Corporate bond	5,083,409	-	5,083,409	-
Bond market index	5,772,629	-	5,772,629	-
Mutual funds – other	<u>5,448,395</u>	<u>5,448,395</u>	<u>-</u>	<u>-</u>
Total	<u>\$31,365,726</u>	<u>\$18,667,541</u>	<u>\$12,698,185</u>	<u>\$ -</u>

Under the provisions of FASB ASC Topic *Fair Value Measurements and Disclosures*, applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

*Equity and fixed-income securities and mutual funds* – Where quoted prices are available in an active market, securities and mutual funds are classified within Level 1 of the valuation hierarchy. Level 1 securities and mutual funds include equity and

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

5. Employee Benefit Arrangements (continued)

**Defined Benefit Pension Plan, Supplemental and Retiree Medical Benefits (continued)**

Plan Assets (continued)

fixed-income mutual funds, U.S. government and agency obligations, and domestic and foreign equity securities. If quoted market prices are not available, then fair values are estimated using pricing models (such as matrix pricing) quoted prices of securities with similar characteristics, or discounted cash flows. These instruments, which would generally be classified within Level 2 of the valuation hierarchy, include structured notes linked to the performance of stock indices or currency exchange rates.

Contributions

The Institute's general funding policy is to contribute annually the actuarially determined minimum funding amount in accordance with the guidelines of the Employee Retirement Income Security Act (ERISA). Based upon projections from its actuary using prior year information, the Institute's management expects to contribute approximately \$1,800,000 to the Pension Plan during the year ending December 31, 2013. As the Medical Plan is not funded, contributions are expected to be equivalent to future estimated benefit payments. Accordingly, the Institute expects to contribute approximately \$98,852 to the Medical Plan in 2013.

Estimated Future Benefit Payments

Future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

For the Year Ending December 31,	Pension Benefits	Medical Benefits
2013	\$ 1,439,127	\$ 98,852
2014	1,428,112	92,715
2015	1,678,591	80,827
2016	1,653,585	72,671
2017	1,881,257	122,155
2018-2022	11,633,479	796,840
Total	\$19,714,151	\$ 1,254,060

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

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5. Employee Benefit Arrangements (continued)

**Defined Contribution Retirement Plan**

Beginning September 1, 1997, the Institute sponsors a defined contribution retirement plan, pursuant to Section 401(k) of the IRC, which is available to all full-time employees. The defined contribution retirement plan was amended on January 1, 2008. Under the terms of the defined contribution retirement plan, eligible employees may elect to contribute up to the federal tax limitation. Pension expense under the defined contribution retirement plan totaled \$620,863 for the year ended December 31, 2012.

**Life Insurance Policies**

All regular, full-time employees of the Institute receive group term life insurance protection equal to two-and-one-half times their salary, up to a maximum benefit of \$450,000. The cost of this life insurance coverage is borne by the Institute.

As of December 31, 2012, the Institute continued to carry life insurance policies on two former officers who had retired under a previous split-dollar use insurance plan. One of these retirees had elected to transfer total ownership of his policy back to the Institute, and the Institute agreed to self-insure his death benefit, plus taxes. At his death, the Institute will receive the insurance proceeds of that applicable policy, which will provide funding for the self-insured obligation. The other retiree transferred total ownership of his policy to the Institute in exchange for a one-time lump-sum payment. The present value of the death benefit receivable on these two policies retained by the Institute was \$1,629,607 as of December 31, 2012, and is reported as insurance policy proceeds receivable in the accompanying consolidated statement of financial position. As of December 31, 2012, the present value of the self-insured obligation of \$448,000 is included in accrued employee benefits in the accompanying consolidated statement of financial position.

**Deferred Compensation**

Effective February 1, 2011, the Institute adopted an additional retirement plan that is available to select executives of the Institute. This additional retirement plan allows such executives an opportunity to defer their compensation, pursuant to Section 457(b) of the Internal Revenue Code, to supplement such employees' retirement benefits. Employees are fully vested when plan contributions are made. Under the 457(b) plan, all employer contributions are at the discretion of the Institute's Board of Directors. For the year ended December 31, 2012, there were no employer contributions and the employee contributions were in the amount of \$57,000.

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012**

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5. Employee Benefit Arrangements (continued)

**Deferred Compensation (continued)**

As of December 31, 2012, the total long-term obligation to current employees is reflected as liabilities in the accompanying consolidated statement of financial position and is detailed as follows:

Obligation to current employees:	
Executive life insurance program	\$ 183,305
Executive retirement plan	<u>117,100</u>
Total Obligation to Current Employees	<u>\$ 300,405</u>

6. Income Taxes

FMI and the Foundation have each received a determination letter from the Internal Revenue Service stating that FMI and the Foundation are not subject to income tax on their exempt activities under Sections 501(c)(6) and 501(c)(3) of the Internal Revenue Code, respectively. The Institute has certain unrelated activities that are subject to federal and District of Columbia income taxes. No provision was required for FMI or the Foundation for the year ended December 31, 2012, as neither organization had any significant net unrelated taxable income.

In accordance with ASC Topic *Income Taxes*, the Institute performed an evaluation of uncertain tax positions for the year ended December 31, 2012, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2012, the statute of limitations for tax years 2009 through 2011 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Institute files tax returns. It is the Institute's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2012, the Institute had no accruals for interest and/or penalties.

7. Reclassifications

Certain reclassifications to the prior year financial statements have been made to conform to current year presentation.

8. Subsequent Events

In preparing these consolidated financial statements, the Institute's management has evaluated events and transactions for potential recognition or disclosure through **(Report Date)**, the date the consolidated financial statements were available to be issued.

**SUPPLEMENTAL INFORMATION**

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**FOOD MARKETING INSTITUTE AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**December 31, 2012**

	FMI	The Foundation	Elimination Entries	Consolidated Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 884,949	\$ 255,185	\$ -	\$ 1,140,134
Accounts receivable	1,080,905	-	(25,719)	1,055,186
Inventory	30,517	-	-	30,517
Prepaid expenses and deposits	994,983	14,301	-	1,009,284
<b>Total Current Assets</b>	<b>2,991,354</b>	<b>269,486</b>	<b>(25,719)</b>	<b>3,235,121</b>
Investments	35,600,130	7,677,174	-	43,277,304
Property and equipment, net	2,423,666	-	-	2,423,666
Insurance policy proceeds receivable	1,629,607	-	-	1,629,607
<b>TOTAL ASSETS</b>	<b>\$ 42,644,757</b>	<b>\$ 7,946,660</b>	<b>\$ (25,719)</b>	<b>\$ 50,565,698</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued expenses	\$ 1,151,380	\$ 159,172	\$ (25,719)	\$ 1,284,833
Accrued pension obligation, current portion	1,439,127	-	-	1,439,127
Obligations for postretirement health benefits, current portion	98,852	-	-	98,852
Accrued employee benefits	1,125,987	-	-	1,125,987
<b>Deferred revenue</b>				
Membership dues	1,690,879	-	-	1,690,879
Registration fees	1,756,628	-	-	1,756,628
Sponsorships	78,343	342,250	-	420,593
Exhibit sales	699,503	-	-	699,503
Participation fees	486,088	-	-	486,088
<b>Total Deferred Revenue</b>	<b>4,711,441</b>	<b>342,250</b>	<b>-</b>	<b>5,053,691</b>
Pass-through funds	888,400	-	-	888,400
Obligations under capital leases, current portion	47,250	-	-	47,250
Notes payable, net of current portion	749,172	-	-	749,172
Deferred rent and lease incentive, current portion	211,869	-	-	211,869
<b>Total Current Liabilities</b>	<b>10,423,478</b>	<b>501,422</b>	<b>(25,719)</b>	<b>10,899,181</b>
Accrued pension obligation, net of current portion	17,138,450	-	-	17,138,450
Obligations to current employees	300,405	-	-	300,405
Obligations for postretirement health benefits, net of current portion	2,329,705	-	-	2,329,705
Obligations under capital leases, net of current portion	92,861	-	-	92,861
Notes payable, net of current portion	256,391	-	-	256,391
Deferred rent and lease incentive, net of current portion	1,524,193	-	-	1,524,193
<b>TOTAL LIABILITIES</b>	<b>32,065,483</b>	<b>501,422</b>	<b>(25,719)</b>	<b>32,541,186</b>
<b>Net Assets</b>				
Unrestricted	10,579,274	7,445,238	-	18,024,512
<b>TOTAL NET ASSETS</b>	<b>10,579,274</b>	<b>7,445,238</b>	<b>-</b>	<b>18,024,512</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 42,644,757</b>	<b>\$ 7,946,660</b>	<b>\$ (25,719)</b>	<b>\$ 50,565,698</b>

**FOOD MARKETING INSTITUTE AND AFFILIATE**

**SCHEDULE OF CONSOLIDATING OPERATING REVENUE AND EXPENSES**

**For the Year Ended December 31, 2012**

	<u>FMI</u>	<u>The Foundation</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>				
<b>Operating Revenue and Support:</b>				
Membership dues	\$ 8,310,015	\$ -	\$ -	\$ 8,310,015
Registration fees	7,594,763	-	-	7,594,763
Sponsorships	2,000,172	-	-	2,000,172
Exhibit sales	6,400,793	-	-	6,400,793
Participation fees	383,240	-	-	383,240
License fees, royalties and commissions	2,373,654	-	(171,198)	2,202,456
Publication sales	265,068	-	-	265,068
Other revenue	146,973	591,644	-	738,617
Investment income, net	39,572	-	-	39,572
	<u>27,514,250</u>	<u>591,644</u>	<u>(171,198)</u>	<u>27,934,696</u>
<b>Total Operating Revenue and Support</b>				
<b>Operating Expenses:</b>				
<b>Salaries and employee benefits:</b>				
Salaries and wages	8,527,515	-	-	8,527,515
Group insurance	638,330	-	-	638,330
Pension and other compensation	620,863	-	-	620,863
Payroll taxes	520,677	-	-	520,677
	<u>10,307,385</u>	<u>-</u>	<u>-</u>	<u>10,307,385</u>
<b>Total Salaries and Employee Benefits</b>				
Meeting services	3,539,394	112,183	-	3,651,577
Outside services	3,072,433	63,856	-	3,136,289
Office and equipment rental	1,834,460	-	-	1,834,460
Professional services	1,670,730	-	-	1,670,730
Contributions, dues, and subscriptions	410,177	406,878	-	817,055
Royalty expenses	755,136	-	-	755,136
Depreciation and amortization	701,549	-	-	701,549
Staff travel	655,766	4,923	-	660,689
Printing and artwork	388,539	13,604	-	402,143
Credit card fees	231,037	-	-	231,037
Postage	224,530	654	-	225,184
Stationery and supplies	144,375	-	-	144,375
Telephone	174,136	-	-	174,136
Cost of goods sold	112,808	-	-	112,808
Interest expense	98,157	-	-	98,157
Insurance	90,039	-	-	90,039
Advertising	79,807	-	-	79,807
Other expenses	74,722	173,190	(171,198)	76,714
Taxes	40,935	-	-	40,935
	<u>24,606,115</u>	<u>775,288</u>	<u>(171,198)</u>	<u>25,210,205</u>
<b>Total Operating Expenses</b>				
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ 2,908,135</u>	<u>\$ (183,644)</u>	<u>\$ -</u>	<u>\$ 2,724,491</u>