



COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2016 and 2015

COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

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Independent Auditors' Report

Board of Directors
Community Harvest Food Bank
of Northeast Indiana, Inc.

We have audited the accompanying financial statements of Community Harvest Food Bank of Northeast Indiana, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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.

Auditors' 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. 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 auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Harvest Food Bank of Northeast Indiana, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2015 Financial Statements

The financial statements of Community Harvest Food Bank of Northeast Indiana, Inc. as of and for the year ended June 30, 2015, were audited by Krouse, Kern & Co., Inc., who merged with Katz, Sapper & Miller, LLP as of December 1, 2015, and whose report dated October 5, 2015, expressed an unmodified opinion on those financial statements.

Katz, Sapper & Miller, LLP

Fort Wayne, Indiana
November 28, 2016

COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

| | 2016 | 2015 |
|---|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash and equivalents | \$ 900,955 | \$ 149,141 |
| Cash restricted for capital campaign | 406,489 | 512,112 |
| Grants receivable | 40,000 | 80,000 |
| Pledges receivable | | 85,900 |
| Other receivables, net | 123,342 | 121,732 |
| Food inventories: | | |
| Donated inventory | 834,486 | 937,871 |
| Purchased inventory | 40,386 | 39,027 |
| Prepaid expenses | 8,723 | 43,745 |
| Investments | 391,874 | 414,181 |
| Beneficial interest in Community Foundation | 151,275 | 159,058 |
| | <u>2,897,530</u> | <u>2,542,767</u> |
| Property and equipment, net | <u>6,327,540</u> | <u>6,464,905</u> |
| TOTAL ASSETS | <u>\$ 9,225,070</u> | <u>\$ 9,007,672</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 47,838 | \$ 94,123 |
| Deferred revenue | | 3,760 |
| Total Liabilities | <u>47,838</u> | <u>97,883</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated | 7,605,775 | 7,343,737 |
| Board designated - emergency fund | 227,000 | 227,000 |
| Board designated - endowment fund | 532,800 | 557,906 |
| Total Unrestricted | <u>8,365,575</u> | <u>8,128,643</u> |
| Temporarily restricted | 796,324 | 765,813 |
| Permanently restricted - endowment | 15,333 | 15,333 |
| Total Net Assets | <u>9,177,232</u> | <u>8,909,789</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 9,225,070</u> | <u>\$ 9,007,672</u> |

See accompanying notes.

COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015

| | 2016 | | | |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE AND OTHER SUPPORT | | | | |
| Donated food product received | \$ 16,461,106 | | | \$ 16,461,106 |
| Contributions, grants and other revenue: | | | | |
| Contributions | 1,357,372 | \$ 290,949 | | 1,648,321 |
| Grants | 431,498 | 440,574 | | 872,072 |
| In-kind contributions | 4,237 | | | 4,237 |
| Fundraising activities | 222,054 | | | 222,054 |
| Investment loss | (21,680) | (627) | | (22,307) |
| Change in beneficial interest in Community Foundation | (7,783) | | | (7,783) |
| Agency shared maintenance | 757,180 | | | 757,180 |
| Gain on disposal of property and equipment | 1,800 | | | 1,800 |
| Other income | 12,992 | | | 12,992 |
| Net assets released from restrictions | 700,385 | (700,385) | | |
| Total Revenue and Other Support | <u>19,919,161</u> | <u>30,511</u> | | <u>19,949,672</u> |
| EXPENSES | | | | |
| Donated food distributed | 16,625,431 | | | 16,625,431 |
| Program services | 2,550,504 | | | 2,550,504 |
| Management and general | 176,251 | | | 176,251 |
| Fundraising | 330,043 | | | 330,043 |
| Total Expenses | <u>19,682,229</u> | | | <u>19,682,229</u> |
| CHANGE IN NET ASSETS | 236,932 | 30,511 | | 267,443 |
| NET ASSETS | | | | |
| Beginning of Year | <u>8,128,643</u> | <u>765,813</u> | \$ 15,333 | <u>8,909,789</u> |
| End of Year | <u>\$ 8,365,575</u> | <u>\$ 796,324</u> | <u>\$ 15,333</u> | <u>\$ 9,177,232</u> |

See accompanying notes.

2015

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------|---------------------------|---------------------------|---------------------|
| \$ 19,371,408 | | | \$ 19,371,408 |
| 1,408,595 | \$ 68,537 | | 1,477,132 |
| 167,295 | 100,000 | | 267,295 |
| 5,740 | | | 5,740 |
| 288,231 | | | 288,231 |
| (2,671) | (355) | | (3,026) |
| (4,086) | | | (4,086) |
| 849,749 | | | 849,749 |
| 1,003 | | | 1,003 |
| 14,640 | | | 14,640 |
| <u>1,429,313</u> | <u>(1,429,313)</u> | | |
| <u>23,529,217</u> | <u>(1,261,131)</u> | | <u>22,268,086</u> |
| 18,889,325 | | | 18,889,325 |
| 2,671,835 | | | 2,671,835 |
| 299,526 | | | 299,526 |
| <u>340,283</u> | | | <u>340,283</u> |
| <u>22,200,969</u> | | | <u>22,200,969</u> |
| 1,328,248 | (1,261,131) | | 67,117 |
| <u>6,800,395</u> | <u>2,026,944</u> | <u>\$ 15,333</u> | <u>8,842,672</u> |
| <u>\$ 8,128,643</u> | <u>\$ 765,813</u> | <u>\$ 15,333</u> | <u>\$ 8,909,789</u> |

COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2016 and 2015

| | 2016 | | | |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------------|-----------------------------|
| | Program Services | Management and General | Fundraising | Total |
| Personnel Expenses: | | | | |
| Salaries and wages | \$ 917,263 | \$ 56,779 | \$ 117,689 | \$ 1,091,731 |
| Casual labor | 86,542 | | | 86,542 |
| Benefits and taxes | 198,329 | 24,286 | 29,905 | 252,520 |
| Total Personnel Expenses | <u>1,202,134</u> | <u>81,065</u> | <u>147,594</u> | <u>1,430,793</u> |
| Other Expenses: | | | | |
| Building expense | 53,047 | | | 53,047 |
| Depreciation | 281,742 | 43,604 | 10,062 | 335,408 |
| Fees and licenses | 19,751 | 13,834 | 1,112 | 34,697 |
| Freight and storage | 6,025 | | | 6,025 |
| Fundraising expenses | | | 113,434 | 113,434 |
| Insurance | 42,179 | 18,802 | | 60,981 |
| Legal and professional fees | 36,509 | 4,078 | 8,061 | 48,648 |
| Maintenance and repairs | 42,188 | | | 42,188 |
| Marketing/public relations | 12,347 | | | 12,347 |
| Miscellaneous | 126,973 | 218 | | 127,191 |
| Office equipment lease/rent | 2,188 | | | 2,188 |
| Office supplies, postage and printing | 34,037 | 3,883 | 12,928 | 50,848 |
| Outside services | 32,296 | 1,966 | 4,545 | 38,807 |
| Product purchases | 415,628 | | | 415,628 |
| Telephone and utilities | 78,468 | 6,029 | 11,790 | 96,287 |
| Travel and meetings | 3,808 | 2,772 | 20,517 | 27,097 |
| Uniforms | 30,171 | | | 30,171 |
| Vehicle expenses | 76,964 | | | 76,964 |
| Warehouse equipment lease/rent | 54,049 | | | 54,049 |
| Total Personnel and Other Expenses | 2,550,504 | 176,251 | 330,043 | 3,056,798 |
| Donated Food Distributed | <u>16,625,431</u> | | | <u>16,625,431</u> |
| TOTAL EXPENSES | <u><u>\$ 19,175,935</u></u> | <u><u>\$ 176,251</u></u> | <u><u>\$ 330,043</u></u> | <u><u>\$ 19,682,229</u></u> |

See accompanying notes.

2015

| Program Services | Management and General | Fundraising | Total |
|-----------------------------|-----------------------------------|--------------------|----------------------|
| \$ 1,000,511 | \$ 112,085 | \$ 144,278 | \$ 1,256,874 |
| 67,018 | | | 67,018 |
| 198,037 | 62,230 | 33,454 | 293,721 |
| <u>1,265,566</u> | <u>174,315</u> | <u>177,732</u> | <u>1,617,613</u> |
| 69,884 | | | 69,884 |
| 229,928 | 23,516 | 7,838 | 261,282 |
| 15,144 | 18,557 | 1,190 | 34,891 |
| 480 | | | 480 |
| | | 96,537 | 96,537 |
| 17,031 | 40,289 | | 57,320 |
| 22,573 | 17,532 | 2,259 | 42,364 |
| 20,514 | | | 20,514 |
| 12,719 | | | 12,719 |
| 93,825 | 855 | 75 | 94,755 |
| 2,124 | | | 2,124 |
| 27,090 | 4,526 | 8,359 | 39,975 |
| 27,983 | 3,828 | 3,331 | 35,142 |
| 626,713 | | | 626,713 |
| 75,822 | 11,300 | 9,911 | 97,033 |
| 5,821 | 4,808 | 33,051 | 43,680 |
| 28,700 | | | 28,700 |
| 76,096 | | | 76,096 |
| 53,822 | | | 53,822 |
| <u>2,671,835</u> | <u>299,526</u> | <u>340,283</u> | <u>3,311,644</u> |
| <u>18,889,325</u> | | | <u>18,889,325</u> |
| <u>\$ 21,561,160</u> | <u>\$ 299,526</u> | <u>\$ 340,283</u> | <u>\$ 22,200,969</u> |

COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|--|-------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 267,443 | \$ 67,117 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 335,408 | 261,282 |
| Gain on disposal of property and equipment | (1,800) | (1,003) |
| Investment loss | 22,307 | 3,026 |
| Change in beneficial interest in Community Foundation | 7,783 | 4,086 |
| Change in donated food inventories | 103,385 | (475,705) |
| (Increase) decrease in certain assets: | | |
| Receivables | 38,390 | 69,882 |
| Purchased inventory | (1,359) | (60) |
| Prepaid expenses | 35,022 | (35,902) |
| Increase (decrease) in certain liabilities: | | |
| Accounts payable and accrued expenses | (46,285) | 65,228 |
| Deferred revenue | (3,760) | (951) |
| Net Cash Provided (Used) by Operating Activities | <u>756,534</u> | <u>(43,000)</u> |
| INVESTING ACTIVITIES | | |
| Change in restricted cash | 105,623 | 767,179 |
| Purchases of property and equipment | (198,043) | (1,300,059) |
| Proceeds from sale of property and equipment | 1,800 | 7,282 |
| Redemptions of investments | | 6,656 |
| Net Cash Used by Investing Activities | <u>(90,620)</u> | <u>(518,942)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for capital campaign | <u>85,900</u> | <u>424,227</u> |
| Net Cash Provided by Financing Activities | <u>85,900</u> | <u>424,227</u> |
| NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS | 751,814 | (137,715) |
| CASH AND EQUIVALENTS | | |
| Beginning of Year | <u>149,141</u> | <u>286,856</u> |
| End of Year | <u>\$ 900,955</u> | <u>\$ 149,141</u> |
| SUPPLEMENTAL DISCLOSURES | | |
| Value of donated food received | \$ 16,461,106 | \$ 19,371,408 |
| Value of donated food distributed | 16,625,431 | 18,889,325 |

See accompanying notes.

COMMUNITY HARVEST FOOD BANK OF NORTHEAST INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Community Harvest Food Bank of Northeast Indiana, Inc. (the Organization) is a nonprofit organization dedicated to providing a food distribution center for feeding sites and food pantries in northeast Indiana. The Organization receives food from local businesses and the national food bank network. The food is available to local nonprofit organizations for free distribution to the needy. The Organization's support comes primarily from grants, contributions and fees from member agencies for shared maintenance costs. The Organization is a member of Feeding America, a national network of food banks.

Basis of Presentation: The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and classify the Organization's activities and net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** represent unrestricted resources available to support the Organization's operations. Unrestricted net assets include funds functioning as endowment through designation by the Board and other Board-designated net assets.
- **Temporarily Restricted Net Assets** represent gifts that are subject to donor-imposed purpose or time restrictions that can be fulfilled either by actions of the Organization pursuant to those restrictions, with the passage of time, or both. Upon satisfaction of such restrictions, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets also include undistributed earnings from donor-restricted endowments which are released from temporarily restricted net assets and recognized as unrestricted net assets upon Board approval of annual endowment distributions.
- **Permanently Restricted Net Assets** represent gifts with donor-imposed restrictions that the original gift amounts be maintained in perpetuity as an endowment.

Estimates: The preparation of financial statements in accordance 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 disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents consist of cash on hand or in demand deposit accounts and highly liquid investments purchased with an original maturity of three months or less. Cash and equivalents do not include cash restricted by donors for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. The Organization has not experienced any losses from its bank accounts.

Investment Valuation and Income Recognition: Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Realized and unrealized gains and losses on investments are included in the statements of activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges and Grants Receivable consist of unconditional promises to give that are expected to be collected in future years and grants classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Pledges and grants receivable are reported as either temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period.

Pledges receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions and grants in the statements of activities. Pledges and grants receivable are reviewed for collectability and a provision for doubtful pledges receivable is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Accounts Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off. Management has established an allowance for doubtful accounts of \$4,820 at June 30, 2016 and 2015.

Inventory: Inventory of purchased food is stated at lower of cost, determined by first-in, first-out (FIFO) method, or market. Donated food inventory is valued at estimated fair value according to a per pound amount, by food category, determined by utilizing the Agreed Upon Procedures report prepared by KPMG LLP for Feeding America, a national food bank network of which the Organization is a member, using the FIFO method of valuation.

Beneficial Interest in Community Foundation represents funds held by the Fort Wayne Community Foundation of Greater Fort Wayne. See Note 4 for discussion of fair value measurements.

Property and Equipment: Expenditures for property and equipment are stated at cost for purchased assets, or at fair value at the date of donation for donated assets, less accumulated depreciation. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives as follows:

| | |
|--------------------------------|------------|
| Buildings and improvements | 7-40 years |
| Office furniture and equipment | 5-15 years |
| Warehouse equipment | 5-15 years |
| Transportation equipment | 5-7 years |

The Organization's property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, no adjustments to the carrying amount of property and equipment have been required.

Deferred Revenue results from payments for shared maintenance fees paid in advance for future purchases of product.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants are recognized as support and revenues when they are received or unconditionally pledged. The Organization reports such gifts as restricted support and revenues if they are subject to time or donor-imposed restrictions. Conditional contributions are not recorded as support and revenues until the conditions are met. Government contracts are classified as exchange transactions, which are reciprocal transfers between two entities in which goods and services of equal value are exchanged, and are not recognized until services are performed or allowable expenditures are incurred as specified in the contracts. Government contracts and certain other grants are subject to audit by the government or granting agency, and as a result of such audit, adjustments to revenue and support could be required.

In-kind Contributions: Contributions of services are recorded at estimated fair value when received if such services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Contributions of food, equipment, and other goods are recorded at estimated fair value when received.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to the specific programs and supporting services benefited. Expenses related to more than one function are allocated among program and support services based on space occupied, time spent by Organization staff, or other estimates made by the Organization's management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended June 30, 2016 and 2015.

The Organization files U.S. federal and Indiana information tax returns. The Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for fiscal years before 2013.

Reclassifications: Certain amounts in the 2015 financial statements have been reclassified to conform to the presentation of the 2016 financial statements.

Subsequent Events: Management has evaluated the financial statements for subsequent events occurring through November 28, 2016, the date the financial statements were available to be issued.

NOTE 2 - PLEDGES AND GRANTS RECEIVABLE

The Organization has a temporarily restricted grant receivable of \$40,000 due in less than one year at June 30, 2016. Grants receivable of \$80,000 was due in less than one year at June 30, 2015.

The Organization had a temporarily restricted pledge receivable of \$85,900 at June 30, 2015. The pledge was collected in full during fiscal year 2016.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2016 and 2015:

| | 2016 | 2015 |
|--------------------------------|---------------------|---------------------|
| Land | \$ 712,247 | \$ 712,246 |
| Buildings and improvements | 6,475,392 | 6,448,964 |
| Office furniture and equipment | 420,665 | 411,117 |
| Warehouse equipment | 587,448 | 558,259 |
| Transportation equipment | 357,637 | 339,456 |
| Construction in progress | <u>176,056</u> | <u>69,857</u> |
| | 8,729,445 | 8,539,900 |
| Less: Accumulated depreciation | <u>(2,401,905)</u> | <u>(2,074,995)</u> |
| Total Property and Equipment | <u>\$ 6,327,540</u> | <u>\$ 6,464,905</u> |

NOTE 4 - FAIR VALUE MEASUREMENTS

The Organization has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Organization makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. Also included in Level 3 are assets measured using a practical expedient that can never be redeemed at the practical expedient.

Following is a description of the valuation methodologies used by the Organization for assets that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Mutual Fund Shares and Money Market Fund Shares: Valued at the daily closing price as reported by the funds. These funds are required to publish their daily net asset value (NAV) and to transact at that price. These funds are deemed to be actively traded.

Exchange-traded Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Beneficial Interest in Community Foundation: Fair value is determined based on the Organization's portion of fair value of the underlying investments in the related investment pool as a practical expedient, without adjustment. The funds held at the Community Foundation are classified within the fair value hierarchy based on the Organization's ability to redeem assets based on the fair value of the underlying investments, as of the measurement date. When the Organization has the ability to redeem its portion of the fair value of the underlying investments in the near term, the assets are categorized as Level 2. Otherwise, the assets are categorized as Level 3. See Note 6 for additional information about the characteristics of these funds.

For those assets measured at fair value, management determines the fair value measurement policies and procedures in consultation with the Organization's Finance Committee. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the reporting date.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the Organization's assets that are measured at fair value on a recurring basis as of June 30, 2016 and 2015:

| 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------------------|-----------------------------|----------------------|----------------------|
| Assets | | | | |
| Investments: | | | | |
| Money market fund shares | \$ 41,449 | | | \$ 41,449 |
| Exchange traded funds: | | | | |
| Fixed income | 4,929 | | | 4,929 |
| Mutual fund shares: | | | | |
| Equities | 291,263 | | | 291,263 |
| Fixed income | 54,233 | | | 54,233 |
| Beneficial Interest in Community Foundation | <u> </u> | <u> </u> | <u>\$151,275</u> | <u>151,275</u> |
| Total Assets at Fair Value | <u>\$391,874</u> | <u>\$</u> | <u>\$151,275</u> | <u>\$543,149</u> |
| 2015 | | | | |
| Assets | | | | |
| Investments: | | | | |
| Money market fund shares | \$ 15,240 | | | \$ 15,240 |
| Exchange traded funds: | | | | |
| Fixed income | 21,741 | | | 21,741 |
| Mutual fund shares: | | | | |
| Equities | 275,533 | | | 325,982 |
| Fixed income | 101,667 | | | 101,667 |
| Beneficial Interest in Community Foundation | <u> </u> | <u> </u> | <u>\$159,058</u> | <u>159,058</u> |
| Total Assets at Fair Value | <u>\$414,181</u> | <u>\$</u> | <u>\$159,058</u> | <u>\$573,239</u> |

At June 30, 2016 and 2015, the Organization had no other assets and no liabilities that are measured at fair value on a recurring basis.

NOTE 5 - INVESTMENTS

Investments as of June 30, 2016 and 2015 are summarized as follows:

| | 2016 | 2015 |
|--------------------------|------------------|------------------|
| Mutual fund shares | \$345,496 | \$377,200 |
| Exchange-traded funds | 4,929 | 21,741 |
| Money market fund shares | <u>41,449</u> | <u>15,240</u> |
| Total Investments | <u>\$391,874</u> | <u>\$414,181</u> |

Investment loss consisted of the following for the years ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|------------------------------|-------------------|------------------|
| Investment income | \$ 8,013 | \$ 3,096 |
| Realized and unrealized loss | <u>(30,320)</u> | <u>(6,122)</u> |
| Total Investment Loss | <u>\$(22,307)</u> | <u>\$(3,026)</u> |

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE 6 - BENEFICIAL INTEREST IN COMMUNITY FOUNDATION

The Organization has transferred assets to the Community Foundation to establish an endowment fund. Under the terms of the agreement, the Organization may make withdrawals from the fund in accordance with the spending policies of the Community Foundation. At the time of the transfer, the Organization granted limited variance power to the Community Foundation. That power gives the Community Foundation the right to vary the purpose of the fund if continued adherence to any condition or restriction is in the judgment of the Community Foundation's Board unnecessary, incapable of fulfillment, or inconsistent with the charitable or other exempt purposes of the Community Foundation or needs of the community served by the Community Foundation. The Organization has recorded a beneficial interest in funds held by the Community Foundation of \$151,275 and \$159,058 at June 30, 2016 and 2015, respectively.

In addition, the Community Foundation has received donations directly from unrelated parties for the benefit of the Organization. The Community Foundation has retained variance power of these donations. The balance of these invested assets is not recorded in the Organization's financial statements and totaled \$156,339 and \$153,478 at June 30, 2016 and 2015, respectively.

NOTE 7 - ENDOWMENT

The Organization's endowment consists of two individual funds. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 7 - ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by Indiana in 2007. The Organization interprets UPMIFA 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, the Organization 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 UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

The endowment net asset composition by type of fund as of June 30, 2016 and 2015, was as follows:

| 2016 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------|---------------------|-------------------------------|-------------------------------|------------------|
| Board-designated funds | \$527,816 | | | \$527,816 |
| Donor-restricted funds | | | \$15,333 | 15,333 |
| Total Funds | <u>\$527,816</u> | <u>\$</u> | <u>\$15,333</u> | <u>\$543,149</u> |
| 2015 | | | | |
| Board-designated funds | \$557,906 | | | \$557,906 |
| Donor-restricted funds | | | \$15,333 | 15,333 |
| Total Funds | <u>\$557,906</u> | <u>\$</u> | <u>\$15,333</u> | <u>\$573,239</u> |

NOTE 7 - ENDOWMENT (CONTINUED)

Activity in the endowment by net asset class for the years ended June 30, 2016 and 2015 is summarized as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|------------------|------------------------|------------------------|------------------|
| Endowment at June 30, 2014 | \$565,018 | | \$15,333 | \$580,351 |
| Investment income | 7,327 | \$ 386 | | 7,713 |
| Realized and unrealized losses | (9,998) | (741) | | (10,739) |
| Change in beneficial interest in Community Foundation | (4,086) | | | (4,086) |
| Released from restriction | <u>(355)</u> | <u>355</u> | | |
| Endowment at June 30, 2015 | 557,906 | | 15,333 | 573,239 |
| Investment income | 7,788 | 225 | | 8,013 |
| Realized and unrealized losses | (29,468) | (852) | | (30,320) |
| Change in beneficial interest in Community Foundation | (7,783) | | | (7,783) |
| Released from restriction | <u>(627)</u> | <u>627</u> | | |
| Endowment at June 30, 2016 | <u>\$527,816</u> | <u>\$</u> | <u>\$15,333</u> | <u>\$543,149</u> |

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 requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported against unrestricted net assets. There were no deficiencies at June 30, 2016 and 2015.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending 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. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return to support the Organization.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 7 - ENDOWMENT (CONTINUED)

Community Foundation Spending Policy

The Organization receives units in the Community Foundation's investment pool and may withdraw or purchase additional shares on a quarterly basis at net asset value per unit. When the assets were transferred to the Community Foundation, the Organization granted variance power, but the Community Foundation agreed to make distributions from these funds only to the Organization. Annually, the Community Foundation distributes an amount not to exceed 5% of the previous twelve quarters average of the ending net assets of the funds, calculated at December 31 of each year. Annual fund distributions made to the Organization are expended on programs or services that fulfill that fund's mission and/or satisfy donor restrictions.

NOTE 8 - NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|------------------|------------------|
| Program Restricted: | | |
| Capital campaign | \$406,489 | \$598,012 |
| Holiday food | 65,838 | 67,801 |
| Kid's café | | 20,000 |
| Farm wagon | 30,000 | |
| Community cupboard | 18,916 | |
| FTM vet program | 15,081 | |
| Time Restricted: | | |
| Operating support | <u>260,000</u> | <u>80,000</u> |
| Total Temporarily Restricted Net Assets | <u>\$796,324</u> | <u>\$765,813</u> |

For the years ended June 30, 2016 and 2015, net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors were as follows:

| | 2016 | 2015 |
|---|------------------|--------------------|
| Capital campaign | \$191,578 | \$1,190,114 |
| Holiday Food | 187,398 | |
| Seniorpak | 28,808 | 11,554 |
| Community cupboard | 42,174 | |
| Farm Wagon | 55,574 | |
| Equipment purchase | | 123,000 |
| Kids Café | 108,710 | 15,000 |
| FTM vet program | 1,115 | |
| FTM seed program | 5,655 | |
| Net investment loss of endowment | (627) | (355) |
| Operating support | <u>80,000</u> | <u>90,000</u> |
| Total Net Assets Released from Restrictions | <u>\$700,385</u> | <u>\$1,429,313</u> |

Board Designation of Unrestricted Net Assets

The Board of Directors has designated that \$227,000 as of June 30, 2016 and 2015, respectively, of unrestricted net assets be set aside as an emergency fund. This designation may be revoked at the discretion of the Board.

NOTE 9 - LINE OF CREDIT

On July 1, 2015, the Organization entered into a \$500,000 line of credit agreement with a bank that expires in July 2017. As of June 30, 2016, there were no borrowings outstanding on the line of credit. The interest rate on outstanding borrowings is equal to the U.S. Prime Rate as published in *The Wall Street Journal* less .25%.

NOTE 10 - TAX DEFERRED ANNUITY PLAN

As of January 1, 2003, the Organization established a tax deferred annuity plan under Internal Revenue Code Section 403(b). Employees qualify after ninety days of service and regularly work at least thirty hours per week. Employees may elect salary reductions up to the legal limits. The Organization makes a matching contribution of 100% of the first three percent the employee puts in the plan. The maximum contribution on the Organization's behalf, therefore, is three percent of an employee's salary. The Organization made contributions to the plan of \$13,721 and \$24,389 in the years ended June 30, 2016 and 2015, respectively.

NOTE 11 - OPERATING LEASES

The Organization leases two trucks with monthly payments totaling \$3,382 through August 2021. The Organization has the option to opt out of the leases in case of an economic downturn after three years. Lease expense totaled \$40,584 and \$33,820 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments due on the two truck leases for fiscal years 2017 through 2021 are \$40,584 each year with \$6,764 due in fiscal year 2022.

NOTE 12 - RELATED PARTY TRANSACTIONS

In the years ended June 30, 2016 and 2015, the Organization paid \$23,120 and \$18,013, respectively, for information technology services to a business owned by a board member.