

Gleaners Food Bank of Indiana, Inc.

Independent Auditor's Report and Financial Statements

September 30, 2017 and 2016

Gleaners Food Bank of Indiana, Inc.
September 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Gleaners Food Bank of Indiana, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Gleaners Food Bank of Indiana, Inc., which comprise the statement of financial position as of September 30, 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 Gleaners Food Bank of Indiana, Inc. as of September 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the September 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

Indianapolis, Indiana
February 14, 2018

Gleaners Food Bank of Indiana, Inc.

Statements of Financial Position September 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 793,825	\$ 935,131
Accounts receivable, net of allowance; 2017 and 2016 - \$0	214,059	50,248
Grants receivable	29,952	31,669
Contributions receivable, at fair value	448,642	672,055
Inventories	4,843,756	3,987,481
Prepaid expenses	177,574	83,802
Investments	9,541,299	-
Beneficial interest in assets held by community foundation	190,258	173,273
Property and equipment, net	9,591,730	9,981,878
Total assets	\$ 25,831,095	\$ 15,915,537
Liabilities		
Accounts payable	\$ 465,077	\$ 716,291
Accrued liabilities and other payables	551,636	352,047
Note payable	496,078	754,902
Total liabilities	1,512,791	1,823,240
Net Assets		
Unrestricted		
Undesignated	13,627,741	12,853,076
Board designated	190,258	173,273
Total unrestricted net assets	13,817,999	13,026,349
Temporarily restricted	1,000,305	1,065,948
Permanently restricted	9,500,000	-
Total net assets	24,318,304	14,092,297
Total liabilities and net assets	\$ 25,831,095	\$ 15,915,537

Gleaners Food Bank of Indiana, Inc.
Statements of Activities
Years Ended September 30, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support								
Government grants and contracts	\$ 422,527	\$ -	\$ -	\$ 422,527	\$ 418,970	\$ -	\$ -	\$ 418,970
Shared contributions	448,615	-	-	448,615	307,670	-	-	307,670
Gifts and donations	5,323,259	2,614,550	9,500,000	17,437,809	5,039,212	1,996,372	-	7,035,584
Interest and dividends	6,744	32,869	-	39,613	2,573	-	-	2,573
Purchased food sales	2,264,719	-	-	2,264,719	1,725,005	-	-	1,725,005
Miscellaneous income	46,324	-	-	46,324	102,013	-	-	102,013
Net assets released from restriction	2,721,492	(2,721,492)	-	-	3,003,321	(3,003,321)	-	-
Total revenue and other support before donated food contributions	11,233,680	(74,073)	9,500,000	20,659,607	10,598,764	(1,006,949)	-	9,591,815
Donated food contributions	36,883,211	-	-	36,883,211	35,346,375	-	-	35,346,375
Total revenue, support and donated food contributions	48,116,891	(74,073)	9,500,000	57,542,818	45,945,139	(1,006,949)	-	44,938,190
Expenses								
Program services								
Food distribution	6,889,560	-	-	6,889,560	6,487,691	-	-	6,487,691
Kids and seniors	1,760,527	-	-	1,760,527	2,148,114	-	-	2,148,114
Supporting services								
Management and general	413,753	-	-	413,753	766,145	-	-	766,145
Fundraising	2,305,087	-	-	2,305,087	2,609,237	-	-	2,609,237
Total expenses before donated food distributions	11,368,927	-	-	11,368,927	12,011,187	-	-	12,011,187
Donated food distributions	35,973,299	-	-	35,973,299	34,985,431	-	-	34,985,431
Total expenses and donated food distributions	47,342,226	-	-	47,342,226	46,996,618	-	-	46,996,618
Change in Net Assets Before Other Gains	774,665	(74,073)	9,500,000	10,200,592	(1,051,479)	(1,006,949)	-	(2,058,428)
Net realized and unrealized gain on investments	-	8,430	-	8,430	-	-	-	-
Change in fair value of beneficial interest in assets held by community foundation	16,985	-	-	16,985	7,642	-	-	7,642
Change in Net Assets	791,650	(65,643)	9,500,000	10,226,007	(1,043,837)	(1,006,949)	-	(2,050,786)
Net Assets, Beginning of Year	13,026,349	1,065,948	-	14,092,297	14,070,186	2,072,897	-	16,143,083
Net Assets, End of Year	\$ 13,817,999	\$ 1,000,305	\$ 9,500,000	\$ 24,318,304	\$ 13,026,349	\$ 1,065,948	\$ -	\$ 14,092,297

Gleaners Food Bank of Indiana, Inc.
Statement of Functional Expenses
Year Ended September 30, 2017
(With Summarized Comparative Totals for 2016)

	Program Services			Support Services		2017 Total	2016 Total
	Food Distribution Costs	Kids and Seniors	Total Program Services	Management and General	Fundraising		
Salaries and wages	\$ 1,915,710	\$ 159,451	\$ 2,075,161	\$ 164,214	\$ 969,127	\$ 3,208,502	\$ 2,810,240
Payroll taxes and benefits	504,756	29,854	534,610	46,269	140,350	721,229	1,122,457
Fees for services	68	2,908	2,976	10,373	2,131	15,480	32,130
Transportation	344,793	53,781	398,574	-	-	398,574	346,131
Warehouse supplies	8,294	27,566	35,860	-	17	35,877	50,610
Supplies	37,881	4,683	42,564	19,242	4,420	66,226	75,639
Promotional and professional services	7,733	2,359	10,092	32,415	799,655	842,162	1,465,740
Postage	88	-	88	57	18,705	18,850	21,176
Computer	105,483	6,578	112,061	10,961	77,493	200,515	139,101
Equipment rental and maintenance	37,852	13,499	51,351	-	-	51,351	80,628
Occupancy	278,894	14,347	293,241	9,136	4,158	306,535	337,910
Telephone	39,897	2,597	42,494	5,483	11,235	59,212	44,886
Travel, conferences and meetings	35,470	7,787	43,257	11,723	13,523	68,503	65,850
Special events and projects	-	-	-	-	254,295	254,295	247,885
Food acquisition	1,269,345	1,388,672	2,658,017	-	-	2,658,017	2,116,549
Cost of goods sold	1,645,719	-	1,645,719	-	-	1,645,719	2,049,265
Noncash expense	-	-	-	77,322	-	77,322	303,926
Interest expense	-	-	-	23,950	-	23,950	26,290
Depreciation	643,512	37,621	681,133	2,608	9,978	693,719	661,096
Miscellaneous	14,065	8,824	22,889	-	-	22,889	13,678
Total functional expenses before donated food distributions	6,889,560	1,760,527	8,650,087	413,753	2,305,087	11,368,927	12,011,187
Donated food distributions	35,973,299	-	35,973,299	-	-	35,973,299	34,985,431
Total functional expenses	\$ 42,862,859	\$ 1,760,527	\$ 44,623,386	\$ 413,753	\$ 2,305,087	\$ 47,342,226	\$ 46,996,618
Percentage of total expenses			94.3%	0.9%	4.9%	100%	

Gleaners Food Bank of Indiana, Inc.

Statements of Cash Flows Years Ended September 30, 2017 and 2016

	2017	2016
Operating Activities		
Cash received from operating and support activities	\$ 11,138,793	\$ 10,008,157
Cash paid to suppliers and employees	(10,796,655)	(10,828,018)
Miscellaneous receipts	41,916	103,529
Investment income	39,613	2,573
Interest paid	(23,950)	(26,290)
Net cash provided by (used in) operating activities	399,717	(740,049)
Investing Activities		
Purchase of property and equipment	(249,330)	(864,300)
Purchase of investments	(9,532,869)	-
Net cash used in investing activities	(9,782,199)	(864,300)
Financing Activities		
Principal payments on note payable	(258,824)	(258,823)
Proceeds from contributions restricted for investment in permanent endowment	9,500,000	-
Net cash provided by (used in) financing activities	9,241,176	(258,823)
Decrease in Cash and Cash Equivalents	(141,306)	(1,863,172)
Cash and Cash Equivalents, Beginning of Year	935,131	2,798,303
Cash and Cash Equivalents, End of Year	\$ 793,825	\$ 935,131
Reconciliation of Change in Net Assets to Net Cash Provided by		
Operating Activities		
Change in net assets	\$ 10,226,007	\$ (2,050,786)
Items not requiring (providing) cash		
Depreciation	693,719	661,096
Gain on disposal of property and equipment	(4,408)	-
Realized and unrealized gain on investments	(8,430)	-
Change in fair value of beneficial interest in assets held by community foundation	(16,985)	(7,642)
Donated property and equipment	(49,833)	-
Contributions restricted for long-term investment	(9,500,000)	-
Change in operating assets		
Accounts receivable	(163,811)	90,967
Contributions and grants receivable	225,130	380,068
Inventory	(856,275)	(309,535)
Prepayments	(93,772)	(3,627)
Accounts payable	(251,214)	427,025
Accrued liabilities and other payables	199,589	72,385
Net cash provided by (used in) operating activities	\$ 399,717	\$ (740,049)

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Gleaners Food Bank of Indiana, Inc. (Gleaners) vision: Food for every table. Hope for every future. Gleaners mission: Lead the fight against hunger. Gleaners' service programs are designed to reach critical needs populations (seniors, children and families) in over 21 counties in central and southeastern Indiana.

The simple fact is that 1 in 6 people in central and southeast Indiana struggle with hunger and food insecurity. That means 1 in 6 Hoosiers worry about where their next meal will come from. To make matters worse, many of those people who need help are those who fall into a gap where they struggle to put food on their table and yet their income is too high to qualify for any federal hunger-relief programs, such as the Supplemental Nutrition Assistance Program (SNAP) or free school meals for children.

Gleaners was founded in 1980 by concerned citizens who had a simple yet profound vision, no one in Indiana should suffer from hunger and malnutrition. Gleaners' goal is to lead the fight against hunger in central and southeast Indiana by collecting, storing, and distributing food to those in need. Gleaners distributes food to hungry Hoosiers through a network of over 250 partner agencies including: emergency food pantries, soup kitchens and shelters. In addition to our partner agencies, Gleaners extends our reach to those in need through programs like:

- BackSacks: Weekend Food for Kids, to help feed kids over the weekend;
- School-Based Pantries, helping high school students provide food for their families;
- Summer Meals for Kids providing food to children throughout the summer; and
- Mobile Pantries, helping remote areas meet food demands.

In addition to providing hunger-relief directly to those in need, Gleaners works to expand awareness of the hunger crisis through various marketing and communication channels that include: continuous media and public relations, special events, community outreach, an annual awareness campaign and other tactics. The main sources of revenue for Gleaners are donations from individuals, service organizations, corporations and family foundations, as well as government grants.

Use of Estimates

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

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by functional expense detail. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Gleaners' 2016 financial statements from which the information was derived.

Cash and Cash Equivalents

Gleaners considers certain liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents managed within the investment portfolio are considered investments. At September 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

At September 30, 2017, Gleaners' cash in bank deposit accounts exceeded federally insured limits by approximately \$49,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Accounts Receivable

Accounts receivable are amounts due to Gleaners by agencies for share fees charged to those agencies. Accounts receivable are stated at the amounts billed to agencies. Gleaners provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice.

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Inventory

Inventory consists primarily of donated food and non-food product valued at the approximate average wholesale value of one pound of donated product at the national level. This value is outlined in the *Product Valuation Survey Methodology* (December 31, 2016, prepared by Feeding America, a national food bank network nonprofit Corporation). KPMG, a major international CPA firm, performed agreed-upon procedures in accordance with standards established by the American Institute of Certified Public Accountants, to assist in determining the approximate average wholesale value of one pound of donated product at the national level as of December 31, 2016. KPMG's report is available upon request. According to this report, at December 31, 2016 and 2015, the average wholesale value of one pound of donated product at the national level was \$1.67 and \$1.70, respectively. For reporting purposes, Gleaners uses the rate in effect at the beginning of the fiscal year to price inventory for the fiscal year. Accordingly, the rate utilized for the inventory values as of September 30, 2017 and 2016 was \$1.67.

The valuation of inventory is performed for purposes of measuring program activity and does not reflect a net realizable value. Under Internal Revenue Code Section 170(e)[3], donated inventory cannot be available for sale, also Feeding America restricts the amount charged for share contribution to affiliate agencies to eighteen cents per pound.

Purchased food inventory is stated at the lower of cost (first-in, first-out method) or fair value. At September 30, 2017 and 2016, purchased food inventory was \$486,560 and \$626,556, respectively.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset ranging from 5 to 39 years.

Long-Lived Asset Impairment

Gleaners evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2017 and 2016.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Gleaners has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Gleaners in perpetuity.

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at fair value determined using the discounted present value of estimated future cash flows technique.

In-Kind Contributions

In addition to receiving cash contributions, Gleaners receives in-kind contributions. Gleaners records the value of donated goods or services when there is an objective basis available to measure their value. The valued donated materials and equipment are reflected as contributions at their estimated values at date of receipt. Total donated goods and services, excluding donated food, reflected in the statements of activities for the years ended September 30, 2017 and 2016 totaled \$127,155 and \$303,926, respectively. Gleaners receives food from the general public as well as through federal USDA programs. Donated food contributions as reflected in the statements of activities for the years ended September 30, 2017 and 2016 were \$36,883,211 and \$35,346,375, respectively. All in-kind contributions are treated as non-cash transactions for the purpose of the statements of cash flows.

Government Grants

Support funded by grants is recognized as Gleaners performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Income Taxes

Gleaners is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Gleaners is subject to federal income tax on any unrelated business taxable income. Gleaners files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

Expenses have been classified as program services, management and general and fundraising based on the actual direct expenditures and cost allocation based on estimates of time and usage by Gleaners personnel and programs.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through February 14, 2018, which is the date the financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 180,042	\$ 435,154
One to five years	248,600	346,000
Thereafter	20,000	-
Total contributions and grants receivable	<u>448,642</u>	<u>781,154</u>
Less allowance for uncollectible pledges	-	(62,667)
Less discounts to net present value	<u>-</u>	<u>(46,432)</u>
Contributions and grants receivable at fair value	<u><u>\$ 448,642</u></u>	<u><u>\$ 672,055</u></u>

The discount rate utilized in 2016 was 3%.

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Note 3: Investments

Gleaners' investments consisted of the following:

	2017	2016
Money market mutual funds	\$ 4,876,605	\$ -
United States Treasuries	3,096,654	-
Equity securities	555,594	-
Mutual funds and exchange-traded funds		
Fixed income funds	118,801	-
Equity funds	893,645	-
Total investments	\$ 9,541,299	\$ -

Total investment return is comprised of the following:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest	\$ 6,744	\$ 32,869	\$ -	\$ 39,613
Net realized and unrealized gains	-	8,430	-	8,430
Total return on investments	\$ 6,744	\$ 41,299	\$ -	\$ 48,043

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest	\$ 2,573	\$ -	\$ -	\$ 2,573

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Note 4: Property and Equipment

Property and equipment at September 30 consists of:

	<u>2017</u>	<u>2016</u>
Land and buildings	\$ 8,217,543	\$ 8,233,543
Building improvements	3,073,764	2,995,789
Furniture and equipment	224,039	221,899
Warehouse equipment	2,662,546	2,498,097
Computer equipment	392,323	317,314
	<u>14,570,215</u>	<u>14,266,642</u>
Less accumulated depreciation and amortization	<u>(4,978,485)</u>	<u>(4,284,764)</u>
Net property and equipment	<u>\$ 9,591,730</u>	<u>\$ 9,981,878</u>

Note 5: Line of Credit

Gleaners has a \$500,000 line of credit agreement with a bank that remains in effect until Gleaners' note payable has been paid in full. The line bears interest at the one-month LIBOR rate plus 2.9% (4.13% at September 30, 2017) and is secured by substantially all assets of Gleaners. There were no amounts outstanding on the line of credit at September 30, 2017 and 2016.

Note 6: Note Payable

Gleaners purchased a building which was partially financed by the seller, creating a note payable of \$2,200,000. The note is due in monthly installments of \$21,569 plus interest at 3% with the final payment due in August 2019. The balance of the note at September 30, 2017 and 2016 was \$496,078 and \$754,902, respectively.

Aggregate annual maturities of the note payable at September 30, are:

2018	\$ 258,828
2019	<u>237,250</u>
	<u>\$ 496,078</u>

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Note 7: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Children's programs	\$ 165,670	\$ 15,000
Marketing and awareness activities	-	300,000
Mobile pantry	86,782	-
Produce hope	190,900	-
Food and share purchase	48,511	50,000
Other purposes	-	10,394
Accumulated endowment earnings	41,299	-
For periods after September 30	467,143	690,554
	<u>\$ 1,000,305</u>	<u>\$ 1,065,948</u>

Permanently Restricted Net Assets

Permanently restricted net assets at September 30 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Investment in perpetuity, the income of which is expendable to support		
General operations	\$ 9,500,000	\$ -
	<u>\$ 9,500,000</u>	<u>\$ -</u>

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2017</u>	<u>2016</u>
Children's programs	\$ 988,750	\$ 1,321,313
Marketing and awareness activities	300,000	307,534
Mobile pantry	78,195	-
Produce hope	26,450	-
Other purposes	10,394	1,240
Food and share purchase	594,291	412,751
Sustainability Initiatives	500,000	-
Capital expansion	-	944,193
Future contributions to be received	223,412	16,290
	<u>\$ 2,721,492</u>	<u>\$ 3,003,321</u>

Note 8: Endowment

Gleaners' endowment consists of two funds, one is a donor-restricted endowment fund and the other is a fund designated by the governing body to function as endowments (board-designated endowment fund). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board-designated endowment fund has been established as a fund with the Central Indiana Community Foundation (CICF) and is reported as a beneficial interest in assets held by community foundation in the statement of financial position. By establishing the fund, Gleaners had granted certain variance powers to CICF, including the right to reject gifts to the fund that are not in compliance with the CICF gift acceptance policy and the ability to re-direct the fund in the event that Gleaners or its successors cease to exist.

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Gleaners' governing body has interpreted the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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, Gleaners 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 donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Gleaners in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Gleaners considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Gleaners and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Gleaners
7. Investment policies of Gleaners

The composition of net assets by type of endowment fund at September 30, 2017 and 2016, was:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 41,299	\$ 9,500,000	\$ 9,541,299
Board-restricted endowment funds	190,258	-	-	190,258
	<u>\$ 190,258</u>	<u>\$ 41,299</u>	<u>\$ 9,500,000</u>	<u>\$ 9,731,557</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ -	\$ -	\$ -
Board-restricted endowment funds	173,273	-	-	173,273
	<u>\$ 173,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,273</u>

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Changes in endowment net assets for the years ended September 30, 2017 and 2016 were:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 173,273	\$ -	\$ -	\$ 173,273
Investment return:				
Investment income	-	32,869	-	32,869
Net appreciation	16,985	8,430	-	25,415
Total investment return	16,985	41,299	-	58,284
Contributions received	-	-	9,500,000	9,500,000
Endowment net assets, end of year	\$ 190,258	\$ 41,299	\$ 9,500,000	\$ 9,731,557

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 165,631	\$ -	\$ -	\$ 165,631
Investment return:				
Net appreciation	7,642	-	-	7,642
Endowment net assets, end of year	\$ 173,273	\$ -	\$ -	\$ 173,273

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at September 30, 2017 and 2016 consisted of:

	2017	2016
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ 9,500,000	\$ -
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA without purpose restrictions	\$ 41,299	\$ -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level Gleaners is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. Gleaners did not have any such funds at September 30, 2017 and 2016.

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For the donor-restricted endowment, Gleaners has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds Gleaners must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under Gleaners' policies, endowment assets are invested in a manner that is intended to produce results that provide long-term growth while assuming a moderate level of investment risk. Gleaners expects its endowment funds to provide an average rate of return of approximately 6 - 8% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, Gleaners relies on a total return strategy for the donor-restricted endowment in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). Gleaners 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.

For the donor-restricted endowment, Gleaners has a policy (the spending policy) of appropriating for expenditure each year up to 5% of its endowment fund's average fair value as of December 31 of the prior year end, provided the fair value of the endowment is greater than the historical dollar value. If the fair value of the endowment is less than the historical dollar value, Gleaners has a policy to limit spending to 2%. Additionally, if the appropriation for current year expenditure would reduce the fair value of the endowment to less than the historical dollar value, Gleaners has a policy to limit spending to the greater of the excess of the fair value over the historical dollar value or 2%. For the board-designated endowment, Gleaners can distribute up to 5% of the endowment's previous year fund balance for expenditure. In establishing this policy, Gleaners considered the long-term expected return on its endowment. Accordingly, over the long term, Gleaners expects the current spending policy to allow its endowment to grow at an average of 1 - 3% annually. This is consistent with Gleaners' objective to maintain the purchasing power of 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 9: Disclosure About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

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Notes to Financial Statements September 30, 2017 and 2016

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017 and 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Cash equivalents				
Money market mutual funds	\$ 291,482	\$ 291,482	\$ -	\$ -
Investments				
Money market mutual funds	4,876,605	4,876,605	-	-
United States treasuries	3,096,654	-	3,096,654	-
Equity securities	555,594	555,594	-	-
Mutual funds and exchange-traded funds				
Fixed income funds	118,801	118,801	-	-
Equity funds	893,645	893,645	-	-
Total investments	9,541,299	6,444,645	3,096,654	-
Contributions receivable	448,642	-	-	448,642
Beneficial interest in assets held by others	190,258	-	190,258	-
September 30, 2016				
Cash equivalents	\$ 217,702	\$ 217,702	\$ -	\$ -
Contributions receivable	672,055	-	-	672,055
Beneficial interest in assets held by others	173,273	-	173,273	-

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Notes to Financial Statements September 30, 2017 and 2016

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2017. Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Financial Officer. The Chief Financial Officer determines the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States of America.

As permitted by Topic 825, Gleaners has elected to measure contributions receivable at fair value. Management has elected the fair value option for contributions receivable because the discount rates utilized to calculate fair value do not fluctuate significantly from year to year.

Cash Equivalents

Fair value is estimated based upon quoted market prices in an active market.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Gleaners currently does not have any Level 3 investments.

Contributions Receivable

As permitted by Topic 825, Gleaners has elected to measure contributions receivable at fair value. Management has elected the fair value option in order to maintain consistent rates of return for all receivables. Fair value is estimated by discounting the cash flows of the future payments expected to be received using rates of return on assets with similar cash flows. Unobservable inputs include the rate of return utilized which was 0% and 3% for 2017 and 2016, respectively.

Beneficial Interest in Assets Held by Others

Fair value is estimated based upon the fair value of the underlying assets included in the CICF long-term and short-term pooled funds.

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Notes to Financial Statements September 30, 2017 and 2016

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Contributions Receivable	
	2017	2016
Balance, beginning of year	\$ 672,055	\$ 865,461
New contributions	30,000	47,300
Payments received	(362,512)	(245,783)
Change in discount to present value	46,432	20,566
Change in allowance	62,667	(15,489)
	<u>62,667</u>	<u>(15,489)</u>
Balance, end of year	<u>\$ 448,642</u>	<u>\$ 672,055</u>

Note 10: Retirement Plan

Gleaners provides a retirement plan described in Section 403(b) of the Internal Revenue Code of 1986, as amended. The plan permits each participant to voluntarily elect to have Gleaners make a contribution to the plan on their behalf by reducing the amount of compensation otherwise payable to the participant. Gleaners' employer matching contribution is equal to 100% of the first 1% of employee contributions. Gleaners' employer matching contribution was \$19,075 and \$17,580 for the years ended September 30, 2017 and 2016, respectively.

Note 11: Related Party Transactions

During 2016, Gleaners utilized a company for the expansion of the facility for which a member of the board of directors is a vice president. The board member recused himself of discussions regarding the decision to utilize the company. Total payments to this company totaled approximately \$716,000 during the year ended September 30, 2016. Construction of the facility was completed in 2016.

Gleaners also has cash, cash equivalents and investment accounts at an institution for which a member of the board of directors is an employee. Cash, cash equivalents and investment at this institution totaled \$9,832,781 and \$217,702 at September 30, 2017 and 2016, respectively.

The executive committee receives and approves conflicts of interest.

Gleaners Food Bank of Indiana, Inc.

Notes to Financial Statements September 30, 2017 and 2016

Note 12: Concentrations

During the year ended September 30, 2017, approximately 57% of total gifts and donations were received from one donor.