FINANCIAL REPORT

FOOD BANK OF NORTHERN INDIANA, INC.

December 31, 2018 and 2017

CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Food Bank of Northern Indiana, Inc.
South Bend, Indiana

We have audited the accompanying financial statements of Food Bank of Northern Indiana, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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 audits. We conducted our audits 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 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 Food Bank of Northern Indiana, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to financial statements, in 2018 Food Bank of Northern Indiana, Inc. adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Crowe & Associates, P.C.

South Bend, Indiana
June 27, 2019

FOOD BANK OF NORTHERN INDIANA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	$ 507,534	$ 519,783
Accounts receivable	71,598	41,294
Promises to give, net	103,868	11,138
Inventories	1,674,157	1,235,497
Prepaid expenses	13,731	486
Property and equipment	633,860	617,103
Beneficial interests in assets held by community foundations	54,252	59,651
Total assets	$ 3,059,000	$ 2,484,952
Liabilities and Net Assets:		
Liabilities:		
Note payable, bank	$ 93,994	$ 78,459
Accounts payable	42,229	81,075
Accrued liabilities	16,954	11,631
Deferred revenue	3,104	5,724
Capital lease obligations	190,867	96,268
Total liabilities	347,148	273,157
Net Assets:		
Without donor restrictions:		
Undesignated	1,968,339	1,330,185
Designated by Board for operations	186,068	251,970
Investment in property and equipment, net of related debt	442,993	520,835
Designated for endowment	54,252	59,651
	2,651,652	2,162,641
With donor restrictions:		
Purpose restricted	60,200	49,154
Total net assets	2,711,852	2,211,795
Total liabilities and net assets	$ 3,059,000	$ 2,484,952

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

FOOD BANK OF NORTHERN INDIANA, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Totals	Unrestricted	Temporarily Restricted	Totals
Support, Revenues, and Gains:						
Contributed food products	$ 6,714,738	$ -	$ 6,714,738	$ 8,465,924	$ -	$ 8,465,924
Contributions and grants	1,275,776	263,634	1,539,410	1,263,225	212,788	1,476,013
Shared maintenance fees	656,497	-	656,497	685,376	-	685,376
USDA commodity service fees	178,714	-	178,714	111,588	-	111,588
Special events	25,555	-	25,555	31,162	-	31,162
Investment income	3,298	-	3,298	1,946	-	1,946
Change in value of beneficial interests in assets held by community foundations	(5,399)	-	(5,399)	7,136	-	7,136
Gain on disposition of equipment	11,250	-	11,250	-	-	-
Net assets released from restrictions	252,588	(252,588)	-	226,818	(226,818)	-
Total support, revenues, and gains	9,113,017	11,046	9,124,063	10,793,175	(14,030)	10,779,145
Expenses:						
Program services expenses - food distribution	7,846,419	-	7,846,419	9,785,446	-	9,785,446
Supporting services expenses:						
Management and general	407,651	-	407,651	390,398	-	390,398
Fundraising	352,680	-	352,680	358,181	-	358,181
Total supporting services expenses	760,331	-	760,331	748,579	-	748,579
Unallocated payments to national affiliate	17,256	-	17,256	13,824	-	13,824
Total expenses	8,624,006	-	8,624,006	10,547,849	-	10,547,849
Change in net assets	489,011	11,046	500,057	245,326	(14,030)	231,296
Net assets, beginning of year	2,162,641	49,154	2,211,795	1,917,315	63,184	1,980,499
Net assets, end of year	$ 2,651,652	$ 60,200	$ 2,711,852	$ 2,162,641	$ 49,154	$ 2,211,795

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

FOOD BANK OF NORTHERN INDIANA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2018 and 2017

	2018				2017			
	Food Distribution	Management and General	Fundraising	Totals	Food Distribution	Management and General	Fundraising	Totals
Distributed products	$ 6,825,512	$ -	$ -	$ 6,825,512	$ 8,704,368	$ -	$ -	$ 8,704,368
Personnel	593,949	304,919	70,230	969,098	628,273	301,888	69,899	1,000,060
Vehicle expenses	69,240	-	-	69,240	99,476	-	-	99,476
Warehouse expenses	8,918	-	-	8,918	10,359	-	-	10,359
Occupancy	89,556	5,906	1,400	96,862	81,511	5,250	1,400	88,161
Insurance	44,193	21,139	5,604	70,936	37,983	16,574	4,424	58,981
Special events	-	-	13,036	13,036	-	-	16,840	16,840
Professional fees	-	17,900	-	17,900	-	15,860	-	15,860
Payroll service	-	7,702	-	7,702		6,748	-	6,748
Office expenses	6,465	3,092	820	10,377	9,450	4,123	1,100	14,673
Postage and delivery	209	836	9,404	10,449	218	873	9,823	10,914
Communications	7,981	3,818	1,012	12,811	7,257	3,167	845	11,269
Trash removal	6,987	-	-	6,987	3,570	-	-	3,570
Equipment expenses	63,759	9,948	397	74,104	66,042	11,068	1,230	78,340
Dues and subscriptions	3,680	1,760	467	5,907	3,265	1,425	380	5,070
Printing and direct mail	-	8,024	201,035	209,059	-	10,483	201,035	211,518
Travel and meals	-	7,579	-	7,579	-	6,358	-	6,358
Advertising and promotion	-	-	46,015	46,015	-	-	45,498	45,498
Training and education	2,398	-	-	2,398	5,353	-	-	5,353
Licenses and permits	1,327	-	-	1,327	2,900	-	-	2,900
Bank and card charges	-	1,058	3,260	4,318		1,058	3,957	5,015
Interest	18,017	-	-	18,017	11,750	-	-	11,750
Other	2,341	12,224	-	14,565	24,719	3,777	1,750	30,246
Depreciation	101,887	1,746	-	103,633	88,952	1,746	-	90,698
Totals	$ 7,846,419	$ 407,651	$ 352,680	$ 8,606,750	$ 9,785,446	$ 390,398	$ 358,181	$ 10,534,025

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

FOOD BANK OF NORTHERN INDIANA, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Change in Cash and Cash Equivalents:		
Cash Flows from Operating Activities:		
Cash received from donor and grantors	$ 1,472,235	$ 1,507,175
Cash received from shared maintenance fees and services	802,287	799,686
Investment income received	3,298	1,946
Cash paid to employees, suppliers, and others	(2,273,046)	(2,254,643)
Interest paid	(18,017)	(11,750)
Net cash provided by (used in) operating activities	(13,243)	42,414
Cash Flows from Investing Activities:		
Proceeds from disposition of property and equipment	11,250	-
Cash Flows from Financing Activities:		
Net borrowings (payments) on note payable, bank	15,535	(10,039)
Payment of capital lease obligations	(25,791)	(14,920)
Net cash (used in) financing activities	(10,256)	(24,959)
Net change in cash and cash equivalents	(12,249)	17,455
Cash and cash equivalents, beginning of year	519,783	502,328
Cash and cash equivalents, end of year	$ 507,534	$ 519,783
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Change in net assets	$ 500,057	$ 231,296
Add (deduct) items not requiring (providing) cash:		
Depreciation	103,633	90,698
(Gain) on disposition of equipment	(11,250)	-
(Increase) decrease in accounts receivable	(30,304)	11,694
(Increase) in promises to give	(92,730)	-
(Increase) in inventories	(438,660)	(289,600)
(Increase) decrease in prepaid expenses	(13,245)	10,207
(Increase) decrease in beneficial interests in assets held by community foundations	5,399	(7,136)
Increase (decrease) in accounts payable	(38,846)	9,588
Increase (decrease) in accrued liabilities	5,323	(5,361)
(Decrease) in deferred revenue	(2,620)	(8,972)
Net cash provided by (used in) operating activities	$ (13,243)	$ 42,414
Non-Cash Investing and Financing Activities:		
Acquisition of equipment by capital lease	$ 120,390	$ -

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

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Food Bank of Northern Indiana, Inc. (the Organization, we, us, our) is an Indiana nonprofit corporation whose mission is to work in partnership with the community to feed the hungry, increase awareness of the effects of hunger, and to lead programs designed to alleviate hunger. We receive, store, and distribute surplus food products to qualifying organizations in Northern Indiana. Our operations are supported primarily by donations of food products from the public and governmental agencies, donations of cash from the public, and shared maintenance fees from member agencies.

Significant Accounting Policies:

Use of Estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Significant estimates used in the accompanying financial statements include:

- Valuation of contributed food products, which are recorded at fair value using the average wholesale value of food products determined nationally by Feeding America, our national affiliate, generally for the prior year.
- Allowances for uncollectable accounts receivable and promises to give, which are based on factors discussed later in this note.
- Valuation of beneficial interests in assets held by community foundations, which are based on the values of the underlying assets, as provided by the community foundations that hold the assets and which approximates the present value of expected future distributions.
- Allocations of costs among program and supporting services, which are based on time estimates, space usage, and other factors driving costs.
- Revenue earned from government-funded awards that governed by cost principles and other administrative and programmatic regulations and are subject to audit by regulatory authorities. It is reasonably possible that revenue earned under such awards will be adjusted upon audit.

Net Asset Classes:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes in net assets therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor restrictions. Our governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met

by the passage of time or other events specified by a donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents:

We consider time and certificates of deposit and all highly liquid debt instruments purchased with an original maturity of three months or less and that are neither held for nor restricted by donors for long-term purposes to be cash equivalents.

Accounts Receivable:

Accounts receivable for service fees and other activities are stated at the outstanding principal balance, net of any charge-offs and an allowance for uncollectable accounts. We provide allowances for doubtful accounts based upon the specific identification of receivables where collection is no longer deemed probable and an allowance based upon the level of receivable balances. In determining the allowance, we evaluate the payment history and other known information for individual accounts, historical losses, and current economic conditions. Individual accounts are charged-off against the allowance in the period that the receivable is deemed uncollectible. Recoveries of receivables previously charged-off are recorded as income in the period received. We do not generally charge interest on its receivables.

Promises to Give:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value, using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The allowance for uncollectible promises to give is based on historical experience, as assessment of economic conditions, and a review of subsequent collections. Promises to give are written-off when deemed uncollectable.

Inventories:

Donated food product – which generally comprises all of inventory - is recorded at fair value, determined by the first-in, first-out method. Fair value is based on the average national wholesale value of food products, as determined by Feeding America, our national affiliate. Because the determination of such values is generally not completed until several months after the fiscal year-end, we use the most recent available values, which are generally from the prior year determination.

Purchased food product is recorded at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property and Equipment:

Property and equipment is stated at cost, if acquired, or at fair value at the date of receipt, if donated, less accumulated depreciation. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets. Those lives are generally as follows:

Building	39 years
Building improvements	7-15 years
Vehicles	5-7 years
Warehouse equipment	5-7 years
Office furniture and equipment	3-7 years

We review the carrying values of property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent that carrying value exceeds the fair value of the assets. In both 2018 and 2017, we determined there were no such impairments of long-lived assets.

Beneficial Interests in Assets Held by Community Foundations:

We have established endowment funds that are perpetual in nature with local community foundations to which both we and others have contributed and named ourselves as beneficiary. We and the other donors granted variance power to the community foundations, which allows the community foundations to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the community foundations, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The funds are held and invested by the community foundations for our benefit. The portions of the funds that are attributable to our contributions are reported at fair value in the statements of financial position, based on the value of the underlying assets, as provided by the community foundations and which approximates the present value of expected future distributions. Distributions and changes in fair value of those portion of the funds are recognized in the statements of activities. The portions of the funds attributable to contributions from others are not reported as an asset in the statements of financial positions, and distributions from those portions are included in contributions revenue in the statements of activities.

Revenue and Revenue Recognition:

Revenue is recognized when earned. Program service and maintenance fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributed services are recognized at estimated fair value if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no such contributed services for the years ended December 31, 2018 and 2017. However, individuals donated a substantial number of volunteer hours in both 2018 and 2017 that are not reported in the accompanying financial statements because the criteria for recognition were not met.

Contributed food products are recorded at their estimated fair value, based upon the average wholesale value of food products determined at the national level by Feeding America, our national affiliate. We received 2,844,052 and 3,234,423 pounds of contributed food products for the years ended December 31, 2018 and 2017, respectively, valued at $6,714,738 and $8,465,924, respectively.

The value of food product received, distributed, and held under United States Department of Agriculture programs is not recognized in the accompanying financial statements because title and risk for the product remains with USDA. We received 2,205,691 and 1,759,473 pounds of food products under USDA programs for the years ended December 31, 2018 and 2017, respectively.

Advertising:

Advertising costs are expensed when incurred. Advertising expense was $40,520 and $29,346 for the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function and report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and building depreciation, which are allocated on a square footage basis, as well as personnel, insurance, office expense, postage, communications, and equipment expenses, which are allocated on the basis of estimates of time and effort or other factors driving expenses.

Income Taxes:

We are exempt from income taxes under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code, except for taxes on unrelated business income. Consequently, no provision is generally made for income taxes. The Internal Revenue Service classifies the Organization as other than a private foundation under Internal Revenue Code Section 509(a)(1).

We recognize the tax benefit from uncertain tax positions only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include our tax-exempt status and positions related to the potential sources of unrelated business taxable income. We have not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements. We classify interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense. There was no accrued interest or any penalties related to unrecognized tax benefits at either December 31, 2018 or 2017, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. We are no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to 2015.

Financial Instruments and Credit Risk:

We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, local individuals, and others supportive of our mission.

Recent Accounting Pronouncements and Accounting Changes:

In 2018, we adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about liquidity, financial performance, and cash flows. The main provisions of this guidance include presentation of two net asset classes instead of the previous three; recognition of underwater endowment funds as a reduction of net assets with donor restrictions; and enhanced disclosures for board-designated amounts, composition of net assets without donor restrictions, and liquidity. There were no net asset reclassifications made as a result of adopting the new standard. In addition, we have elected to change the reporting of our statements of financial position from a classified to an unclassified presentation and to change the presentation of our statements of cash flows from the indirect method to the direct method. We believe these changes will provide more useful information to users of our financial statements.

Subsequent Events:

We have evaluated events occurring subsequent to December 31, 2018 for possible adjustment to the financial statements or disclosure through June 27, 2019, the date the financial statements were available to be issued.

NOTE 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure (that is, without donor or other restrictions limiting their use) within one year of December 31, 2018 are as follows:

Cash and cash equivalents	$ 447,334
Accounts receivable	71,598
Promises to give	31,138
Distributions from beneficial interests in assets held by community foundations	2,170
Total financial assets available for general expenditure	$ 552,240

Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $186,068 as of December 31, 2018. Accounts receivable and promises to give reflect all portions expected to be collected within twelve months of December 31, 2018. Distributions from the beneficial interests in assets held by community foundations reflect expected distributions based on the community foundations' historic 4% distribution rates. Also, as discussed in Note 6, we maintain a $100,000 bank line of credit for operating purposes, of which $93,994 was borrowed at December 31, 2018.

NOTE 3. PROMISES TO GIVE

Promises to give consist are estimated to be collected as follows at December 31, 2018 and 2017, respectively:

	2018	2017
Within one year	$ 31,138	$ 11,138
In one to five years	80,000	-
	111,138	11,138
Less discount to net present value at 2.571%	(7,270)	-
Less allowance for uncollectables	-	-
Net promises to give	$ 103,868	$ 11,138

In addition, at December 31, 2018, we had received approximately $170,000 of conditional promises to give in excess of allowable costs incurred under cost-reimbursement awards with governmental agencies. Such promises will be recognized if and when allowable costs are incurred.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2018 and 2017, respectively:

	2018	2017
Land	$ 22,221	$ 22,221
Building and improvements	1,052,486	1,052,486
Vehicles	324,850	251,960
Warehouse equipment	139,894	139,894
Office furniture and equipment	68,628	68,628
	1,608,079	1,535,189
Less accumulated depreciation	(974,219)	(908,086)
Net property and equipment	$ 633,860	$ 617,103

NOTE 5. BENEFICIAL INTERESTS IN ASSETS HELD BY COMMUNITY FOUNDATIONS

We are the beneficiary of endowment funds established by the Organization and held by Community Foundation of St. Joseph County, Inc., Elkhart County Community Foundation, and Unity Foundation of LaPorte County, Inc. (collectively the community foundations), to which both we and others have contributed. We and the other donors have granted the community foundations variance power, which allows the community foundations to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in their sole judgement, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. Distributions to us are under the control of the community foundations. The value of the portions of the funds attributable to our contributions was $54,252 and $59,651 at December 31, 2018 and 2017, respectively; these same amounts are also reported as funds functioning as endowment in the net assets section of the accompanying statements of financial position. The change in value in this portion of the funds of ($5,399) and $7,136, net of distributions, for the years ended December 31, 2018 and 2017, respectively, is included in revenues. We received distributions of $2,195 and $1,326 from this portion of the funds in the years ended December 31, 2018 and 2017, respectively, which are included in investment income.

The value of the portion of the funds attributable to contributions by others was $158,417 and $170,864 at December 31, 2018 and 2017, respectively, which is not reported as an asset in the accompanying statements of financial position. Distributions of $5,951 and $2,655 were received from this portion of the funds in 2018 and 2017, respectively, which are included in contributions and grants revenue in the accompanying statements of activities.

NOTE 6. NOTE PAYABLE, BANK

Note payable, bank, with balances of $93,994 and $78,459 at December 31, 2018 and 2017, respectively, represents outstanding borrowing on a $100,000 bank line of credit that is collateralized by certain bank deposits and bears interest at 200 basis points over Wall Street Journal prime (7.5% at December 31, 2018). The note matures in September 2019.

NOTE 7. LEASE INFORMATION

We are party to two capital leases at December 31, 2018 and one capital lease at December 31, 2017. Both capital leases are for equipment, with one requiring monthly payments of $1,675 through October 2023, and the other requiring monthly payments of $1,735 through February 2025. The assets and liabilities were recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lower of the related lease terms or their estimated productive lives. Amortization of the capital-leased assets included in depreciation expense was $33,143 and $18,360 for the years ended December 31, 2018 and December 31, 2017, respectively. The gross cost and related accumulated depreciation of capital leased assets is as follows at December 31, 2018 and 2017, respectively:

	2018	2017
Gross cost	$ 231,998	$ 111,608
Less accumulated depreciation	(52,744)	(15,944)
Net book value	$ 179,254	$ 95,664

Total minimum rent commitments under these leases at December 31, 2018 for each of the next five years and in the aggregate are as follows:

2019	$ 40,920
2020	40,920
2021	40,920
2022	40,920
2023	37,919
Thereafter	25,027
	226,626
Less imputed interest	(35,759)
Total capital lease obligations	$ 190,867

We also lease other office and warehouse equipment on short term leases. Total rent expense under all operating leases was $46,064 and $36,713 for the years ended December 31, 2018 and 2017, respectively.

NOTE 8. NET ASSETS INFORMATION

Net assets designated by Board for special purposes represent a general operating reserve. Net assets functioning as endowment represent the beneficial interests in assets held by the community foundations discussed in Note 5. Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2018 and 2017, respectively:

	2018	2017
Subject to expenditure for specified purposes:		
Food pantries	$ 48,000	$ 48,000
Food purchases	12,200	1,154
Net assets with donor restrictions	$ 60,200	$ 49,154

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes specified by the donors as follows for the years ended December 31, 2018 and 2017, respectively:

Satisfaction of purpose restrictions:		
Food 4 Kids program	$ 178,676	$ 145,765
Food purchases	54,000	51,500
Food pantries	19,912	29,553
Total net assets released from donor restrictions	$ 252,588	$ 226,818

NOTE 9. FAIR VALUE MEASUREMENTS

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

- *Level 1*: Quoted prices (unadjusted) for identical assets in active markets that the entity has the ability to access as of the measurement date.
- *Level 2*: Significant other 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.
- *Level 3*: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

The fair value of assets measured on a recurring basis at December 31, 2018 and 2017, respectively, is as follows:

	Fair Value	Level 1	Level 2	Level 3
For 2018:				
Inventories	$ 1,674,157	$ -	$1,674,157	$ -
Beneficial interests in assets held by community foundations	54,252	-	-	54,252
Totals	$ 1,728,409	$ -	$1,674,157	$ 54,252
For 2017:				
Inventories	$ 1,235,497	$ -	$1,235,497	$ -
Beneficial interests in assets held by community foundations	59,651	-	-	59,651
Totals	$ 1,295,148	$ -	$1,235,497	$ 59,651

Fair value for inventories is determined by using the average wholesale value of food products determined nationally by Feeding America, our national affiliate. As discussed in Note 1, because the determination of such values is generally not completed until several months after the fiscal year-end, we use the most recent available values, which are generally from the prior year determination. Consequently, the fair value at December 31, 2018 is based on December 31, 2017 values, and the fair value at December 31, 2017 is based on December 31, 2016 values.

Fair value for the beneficial interests in assets held by community foundation is based on the fair value of the underlying assets, as provided by the community foundations and which approximates the present value of expected future distributions.

The following is a reconciliation of beginning and ending balances of the fair value of assets at December 31, 2018 and 2017, respectively, measured by Level 3 inputs:

	2018	2017
Fair value beginning of year	$ 59,651	$ 52,515
Change in value	(3,204)	8,462
Distributions received	(2,195)	(1,326)
Fair value end of year	$ 54,252	$ 59,651

The change in value of beneficial interests in assets held by community foundations is reported as such in the accompanying statements of activities, and is composed of investment gains and undistributed earnings on investments held by the community foundations.

NOTE 10. RETIREMENT PLAN

We maintain a defined-contribution "SIMPLE" plan that covers substantially all of our employees. Total retirement expense was $7,829 and $8,900 for the years ended December 31, 2018 and 2017, respectively.

NOTE 11. CONCENTRATIONS

Our donors and activities are concentrated in Northern Indiana. Accordingly, our contributions, shared maintenance fees, and other sources of support and revenue may be affected by conditions in that area.

Financial instruments that expose us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. At December 31, 2018, we had approximately $186,000 in money market funds that are not federally insured and approximately $129,000 in bank deposits that exceed the federal insurance limits. Accounts receivable, which are unsecured, represent a concentration of credit risk since all are due from distributing member agencies served by us within Northern Indiana.