

Montana Food Bank Network

Audited Financial Statements

June 30, 2017 and 2016



Montana Food Bank Network

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Montana Food Bank Network
Missoula, Montana

We have audited the accompanying financial statements of Montana Food Bank Network (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 the 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 the financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 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 Montana Food Bank Network, as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Junkermier, Clark, Campanella, Stevens, P.C.

Missoula, Montana
September 18, 2017

Montana Food Bank Network
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,288,268	\$ 1,425,652
Accounts receivable	58,561	48,370
Grants receivable	54,020	27,661
Pledges receivable	49	5,000
Inventories	653,733	677,708
Prepaid expenses	21,146	24,735
Total current assets	2,075,777	2,209,126
Other assets		
Property and equipment, net	1,419,215	1,432,260
Investments	646,853	578,855
Total other assets	2,066,068	2,011,115
Total assets	\$ 4,141,845	\$ 4,220,241
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 45,657	\$ 62,852
Accrued liabilities	54,864	37,801
Notes payable, current	-	3,819
Mortgages payable, current	-	24,944
Total current liabilities	100,521	129,416
Long-term liabilities		
Notes payable, net of current portion	-	11,811
Mortgages payable, net of current portion	-	221,456
Total long-term liabilities	-	233,267
Total liabilities	100,521	362,683
Net assets		
Net assets without donor restrictions	3,791,350	3,641,638
Net assets with donor restrictions	249,974	215,920
Total net assets	4,041,324	3,857,558
Total liabilities and net assets	\$ 4,141,845	\$ 4,220,241

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

**Montana Food Bank Network
Statement of Activities
For the Year Ended June 30, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Value of donated food	\$ 13,419,967	\$ -	\$ 13,419,967
Contributions	1,087,516	127,031	1,214,547
Contributions - in-kind	12,954	-	12,954
Grants	468,211	454,785	922,996
Special events	212,243	27,500	239,743
Net assets released from restriction	<u>575,262</u>	<u>(575,262)</u>	<u>-</u>
Total public support	15,776,153	34,054	15,810,207
Revenue			
Shared maintenance fees	61,526	-	61,526
Partnership food sales	1,147,779	-	1,147,779
Other revenue	<u>111,055</u>	<u>-</u>	<u>111,055</u>
Total revenue	<u>1,320,360</u>	<u>-</u>	<u>1,320,360</u>
Total public support and revenue	17,096,513	34,054	17,130,567
Expenses			
Program services			
Value of donated food distributed	13,493,787	-	13,493,787
Food distribution	2,332,036	-	2,332,036
Public policy	<u>220,820</u>	<u>-</u>	<u>220,820</u>
Total program services	16,046,643	-	16,046,643
Support services			
Administration	243,503	-	243,503
Fundraising	<u>656,655</u>	<u>-</u>	<u>656,655</u>
Total support services	<u>900,158</u>	<u>-</u>	<u>900,158</u>
Total program and support services	<u>16,946,801</u>	<u>-</u>	<u>16,946,801</u>
Change in net assets	149,712	34,054	183,766
Net assets - beginning of year	<u>3,641,638</u>	<u>215,920</u>	<u>3,857,558</u>
Net assets - end of year	<u>\$ 3,791,350</u>	<u>\$ 249,974</u>	<u>\$ 4,041,324</u>

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

Montana Food Bank Network
Statement of Activities
For the Year Ended June 30, 2016

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Value of donated food	\$ 10,559,984	\$ -	\$ 10,559,984
Contributions	1,390,681	16,777	1,407,458
Contributions - in-kind	49,412	-	49,412
Grants	436,923	365,092	802,015
Special events	263,253	17,025	280,278
Net assets released from restriction	<u>365,119</u>	<u>(365,119)</u>	<u>-</u>
Total public support	13,065,372	33,775	13,099,147
Revenue			
Shared maintenance fees	113,313	-	113,313
Partnership food sales	944,496	-	944,496
Other revenue	<u>(3,925)</u>	<u>-</u>	<u>(3,925)</u>
Total revenue	<u>1,053,884</u>	<u>-</u>	<u>1,053,884</u>
Total public support and revenue	14,119,256	33,775	14,153,031
Expenses			
Program services			
Value of donated food distributed	10,645,704	-	10,645,704
Food distribution	2,060,622	-	2,060,622
Public policy	<u>148,419</u>	<u>-</u>	<u>148,419</u>
Total program services	12,854,745	-	12,854,745
Support services			
Administration	161,485	-	161,485
Fundraising	<u>778,987</u>	<u>-</u>	<u>778,987</u>
Total support services	<u>940,472</u>	<u>-</u>	<u>940,472</u>
Total program and support services	<u>13,795,217</u>	<u>-</u>	<u>13,795,217</u>
Change in net assets	324,039	33,775	357,814
Net assets - beginning of year	<u>3,317,599</u>	<u>182,145</u>	<u>3,499,744</u>
Net assets - end of year	<u>\$ 3,641,638</u>	<u>\$ 215,920</u>	<u>\$ 3,857,558</u>

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

**Montana Food Bank Network
Statement of Functional Expenses
For the Year Ended June 30, 2017**

	<u>Food Distribution</u>	<u>Public Policy</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Value of donated food distributed	\$ 13,493,787	\$ -	\$ -	\$ -	\$ 13,493,787
Cost of food delivered	1,518,465	-	-	-	1,518,465
Salaries	327,653	110,481	145,291	147,808	731,233
Payroll taxes	34,796	9,028	12,476	11,842	68,142
Employee benefits	39,205	16,619	15,955	14,005	85,784
Training	5,619	5,185	7,966	4,315	23,085
Travel	11,488	8,111	4,331	2,381	26,311
Supplies	10,886	4,234	2,019	12,790	29,929
Printing and publications	1,777	5,126	293	109,637	116,833
Postage and delivery	1,304	2,172	959	69,905	74,340
Telephone	4,068	2,026	1,088	1,601	8,783
Advertising	-	2,400	-	8,699	11,099
Contract services	14,531	11,580	11,840	247,300	285,251
Professional fees	-	-	18,179	-	18,179
Conference and meeting costs	1,372	3,478	182	304	5,336
Agency grants	62,990	30,000	-	-	92,990
Insurance	14,941	2,134	3,345	7,006	27,426
Dues and subscriptions	10,334	723	1,413	2,967	15,437
Utilities	30,296	1,021	683	1,361	33,361
Equipment purchases	3,517	238	378	93	4,226
Depreciation	143,203	5,561	11,741	7,208	167,713
Repairs and maintenance	57,381	504	385	652	58,922
Fuel, oil, and gas	33,141	-	-	-	33,141
Interest	4,556	191	123	252	5,122
Bank and finance charges	-	-	97	6,520	6,617
Other	513	8	4,759	9	5,289
	<u>\$ 15,825,823</u>	<u>\$ 220,820</u>	<u>\$ 243,503</u>	<u>\$ 656,655</u>	<u>\$ 16,946,801</u>
Total expenses					
Percentage of total expenses	93.4 %	1.3 %	1.4 %	3.9 %	100 %

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

**Montana Food Bank Network
Statement of Functional Expenses
For the Year Ended June 30, 2016**

	<u>Food Distribution</u>	<u>Public Policy</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Value of donated food distributed	\$ 10,645,704	\$ -	\$ -	\$ -	\$ 10,645,704
Cost of food delivered	1,271,535	-	-	-	1,271,535
Salaries	325,257	92,406	82,300	176,806	676,769
Payroll taxes	44,115	9,971	9,625	19,998	83,709
Employee benefits	31,378	10,520	6,695	15,117	63,710
Training	9,436	6,058	11,780	3,349	30,623
Travel	16,719	10,523	4,392	2,339	33,973
Supplies	13,752	2,364	2,121	8,329	26,566
Printing and publications	156	3,029	9	314,587	317,781
Postage and delivery	1,267	1,307	1,093	81,070	84,737
Telephone	5,564	1,099	708	1,699	9,070
Advertising	-	2,400	-	4,686	7,086
Contract services	8,977	646	12,622	126,617	148,862
Professional fees	4,285	-	16,730	-	21,015
Conference and meeting costs	2,612	1,227	126	149	4,114
Agency grants	24,623	-	-	-	24,623
Insurance	16,575	1,497	3,238	2,978	24,288
Dues and subscriptions	9,885	237	1,386	3,046	14,554
Utilities	29,739	986	336	1,328	32,389
Equipment purchases	1,300	862	405	471	3,038
Depreciation	150,566	2,522	6,696	8,443	168,227
Repairs and maintenance	50,778	430	395	896	52,499
Fuel, oil, and gas	31,589	-	-	13	31,602
Interest	10,392	288	120	357	11,157
Bank and finance charges	78	39	118	6,690	6,925
Other	44	8	590	19	661
Total expenses	<u>\$ 12,706,326</u>	<u>\$ 148,419</u>	<u>\$ 161,485</u>	<u>\$ 778,987</u>	<u>\$ 13,795,217</u>
Percentage of total expenses	92.1 %	1.1 %	1.2 %	5.6 %	100 %

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

Montana Food Bank Network
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 183,766	\$ 357,814
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	167,713	168,227
(Gain) Loss on disposal of assets	(11,320)	8,869
Unrealized (gain) loss on investments	(58,554)	30,851
Changes in operating assets and liabilities		
Receivables	(31,599)	(20,544)
Inventories	23,975	(10,880)
Prepaid expenses	3,589	(6,036)
Accounts payable	(17,195)	(36,469)
Accrued liabilities	<u>17,063</u>	<u>7,344</u>
Net cash from operating activities	<u>277,438</u>	<u>499,176</u>
Cash flows from investing activities		
Purchase of property and equipment	(158,464)	(157,807)
Proceeds from sales of property and equipment	16,000	-
Net (purchases) of investments and reinvestments	<u>(10,328)</u>	<u>(12,726)</u>
Net cash from investing activities	<u>(152,792)</u>	<u>(170,533)</u>
Cash flows from financing activities		
Payments on long-term debt	<u>(262,030)</u>	<u>(24,453)</u>
Net cash from financing activities	<u>(262,030)</u>	<u>(24,453)</u>
Net change in cash	(137,384)	304,190
Cash and cash equivalents - beginning of year	<u>1,425,652</u>	<u>1,121,462</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,288,268</u></u>	<u><u>\$ 1,425,652</u></u>
Non-Cash Investing and Financing Activities		
Debt financed purchase of property and equipment	\$ -	\$ 16,207
Supplemental Cash Flow Information		
Cash paid for interest	\$ 5,122	\$ 11,157

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

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Organization

The Montana Food Bank Network, Inc. ("MFBN") ("the Organization") is a nonprofit, tax-exempt section 501(c)(3) organization whose vision is building a unified force to address hunger in Montana. The mission of MFBN is working to eliminate hunger in Montana through food acquisition and distribution, education and advocacy. The Organization acts to accomplish its mission by soliciting, warehousing and transporting and distributing food to charitable programs that directly serve needy families, children and seniors in the State of Montana. The Organization partners with over 150 agencies across the State of Montana which includes community operated food banks, food pantries, soup kitchens, senior centers, day care centers, rehabilitation facilities and group homes. MFBN coordinates the hunger-relief work of its Partner Agencies through promoting hunger awareness in Montana, maintenance of publications and resources, facilitating a state-wide system for the transportation and storage of food, and providing education on hunger-related issues. The following are the major programs of the Organization.

Food Distribution - MFBN solicits food donations from the food industry, Feeding America, Montana retailers and wholesalers, and produce recovery efforts through statewide and regional farmers. The Organization is contracted by the U.S. Department of Agriculture and the State of Montana to warehouse and distribute The Emergency Food Assistance Program ("TEFAP") commodity food. The Organization also purchases food with grant and donated funds at wholesale cost for benefit of its Partner Agencies. Donated, commodity and purchased food is then transported, warehoused and distributed to charitable programs that directly serve needy people throughout all 56 counties in the State of Montana.

Complimentary to its Food Distribution model, MFBN also fights hunger by providing a Mobile Food Pantry that distributes food to unserved and underserved communities in Montana. In an effort to combat childhood hunger, the Organization has begun a Backpack Program in local area counties to provide healthy food that income-qualified students at risk of hunger can take home and eat over the weekend and during school holidays.

Public Policy Program - MFBN promotes sustainable solutions to hunger and works to address long-term chronic hunger issues. The Organization aims to improve access to adequate nutrition among Montanans with limited income by increasing awareness about and access to public nutrition programs through application assistance workshops, community meetings and working with those interested in applying. The Organization also collects and monitors data on hunger, food insecurity, and access to affordable healthy food. The Organization promotes public awareness and encourages Montanans to make the hunger issue a priority by establishing an ongoing dialogue about ways to end hunger in our communities. MFBN's Food Security Council ("the Council") provides a forum for discussion and sharing best practices among anti-hunger leaders. The Council serves to identify barriers that create food insecurity, gaps in services, and the need for program development throughout the state.

Basis of Accounting

The Organization's financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

The financial statement presentation follows the recommendation of Financial Accounting Standards Board Accounting Standards Codification 958, *Not for Profit Entities* (FASB ASC 958). Under ASC 958, MFBN is required to report information regarding its financial information and activities according to two classes of net assets: net assets without donor restrictions, which represent the expendable resources that are available for operations at management's discretion, and net assets with donor restrictions, which represent resources restricted by donors as to purpose or by passage of time, or resources whose use by MFBN is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of MFBN.

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 certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Organization maintains various accounts at local banks that are insured by the Federal Deposit Insurance Corporation (FDIC). The Organization's bank accounts may exceed the FDIC limits at various times during the year. The Organization believes they are not exposed to any significant credit risk on cash balances.

Management of Liquid Resources

Montana Food Bank Network, Inc. is primarily funded by individual donors, largely residing in the state of Montana. MFBN is the only recognized Feeding America partner in the state and has a contractual agreement with Feeding America. Part of this contract requires MFBN to hold in cash reserve a minimum of three months of operating expenses. In addition to our operating reserve, MFBN receives donations from individuals and corporations that contain restrictions. These restrictions require MFBN to use resources in certain manner or future time period. As a result, MFBN must maintain adequate reserves to meet these responsibilities to its donors. The Board of Directors has put in place a financial investment policy for MFBN. As part of this policy, the Board of Directors may designate a portion of MFBN's liquidity reserve to a long term investment that could be utilized in the event of an unanticipated liquidity need. Additionally, MFBN could draw upon a \$50,000 line of credit should the need for additional liquid resources arise.

Investments

Investments are composed of money market funds, common stock, and bonds purchased through and held by a third party investment manager and are reported at fair value based on quoted market prices. Interest and dividend income, as well as net gains and losses on these investments are included in other income. The Organization determined the fair value of its investments through the application of FASB ASC 820, *Fair Value Measurements and Disclosures* as discussed in Note 2.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to risks, such as interest rate, credit, and market 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 investment balances and the amounts reported in the statements of financial position.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounts and Grants Receivable

The Organization uses the allowance method for uncollectible receivables. Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off. Bad debts of \$480 and zero were recorded during the years ended June 30, 2017 and 2016, respectively. Management estimates the allowance for doubtful accounts to be zero at June 30, 2017 and 2016.

Inventory

Inventories consist of food that has been donated or purchased during the current year and has not yet been distributed. In accordance with Feeding America's Product Valuation Survey, donated inventory items are valued at \$1.73 and \$1.67 per pound as of June 30, 2017 and 2016, respectively.

Property and Equipment

Property and equipment are stated at cost at the date of purchase or fair value at the date of donation. Depreciation is computed using the straight line method over the estimated useful lives of the assets, which ranges from 5-7 years for equipment to 39 years for buildings. The Organization capitalizes all expenditures for property and equipment equal to or greater than \$3,000 and having a useful life exceeding one year.

Donated Goods and Services

MFBN reports gifts of donated food and grocery products over which it has control (i.e. variance power) as unrestricted public support and, shortly thereafter, as an expense when granted to MFBN agencies.

In addition, many individuals and organizations have made in-kind donations or volunteered their services to MFBN. Accounting principles generally accepted in the United States of America requires recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind donations consisting of donated printing and other qualifying services were \$12,954 and \$49,412 for the years ended June 30, 2017 and 2016, respectively.

Additionally, many individuals volunteer their time and skills to perform a variety of tasks that assist MFBN, but these services do not meet the criteria for recognition as contributed services. The estimated value of services that do not meet the criteria for recognition was \$59,312 and \$72,562 for the years ended June 30 2017 and 2016, respectively.

Contributions and Pledges

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as net assets with donor restrictions. Contributions, including unconditional pledges, are recognized in the period received. A donor restriction expires when a time restriction ends or when the purpose for which it was intended is attained. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (Continued)

The Organization receives grants from the Federal and State governments that are conditioned upon MFBN incurring certain qualifying costs. These grants are considered to be conditional promises to give and therefore are recognized as unrestricted revenue as those costs are incurred.

Advertising Costs

The Organization expenses non-direct response advertising costs as incurred.

Income Taxes

The Organization has implemented FASB ASC 740-10, which addresses the accounting for uncertainties in income taxes recognized by an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. The determination of tax exempt status is considered to be a tax position taken with respect to the provisions of ASC 740-10.

The Organization's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence. It is the opinion of management that the Organization has no uncertain tax positions that would be subject to recognition under ASC 740-10.

Functional Allocation of Expenses

The costs of providing various programs and activities are summarized on a functional basis in the statement of activities. Certain administrative and other costs have been allocated among the programs based on specific identification or based on estimates of the expenses incurred. The primary activity groups and their related purposes are summarized as follows:

Administrative Expenses - Expenses which allow MFBN to operate and provide services to clients, but are not directly attributable to client services.

Program Services - Expenses which are associated with food distribution, education, and outreach activities.

Fundraising Expenses - Provides for direct mail fundraising and low-cost supplies and services for special events and activities designed to create public awareness and support for hunger-related issues.

Program Cost Allocation

The financial statements of Montana Food Bank Network report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: payroll salary, taxes, benefits, insurance expense, general printing, supplies and communication expenses on an allocation by time basis, and interest expense, janitorial expense and utilities on an allocation by occupied space. Additionally, depreciation is allocated by occupied space, employee time, or equal benefit by department (split evenly between departments) depending on the asset.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (Continued)

Management and General Cost Allocation

The duties of the Organization's CEO include oversight of the entire Organization. At MFBN the CEO spends a portion of time overseeing each of its programs and assisting with administrative and development activities. A portion of the CEO's compensation, taxes, benefits and other expense would be allocated to each of these departments as they represent direct conduct or supervision. A time study is administered periodically to develop an allocation for the CEO's time based on the time activity study.

Although the Organization feels the duties of the CFO encompass all areas for the Organization at times, the Organization chooses not to allocate the CFO time to any other departments. MFBN applies all time for the CFO to the administration department of the Organization, as it feels this is the most conservative approach for expensing the CFO's time.

MFBN receives federal grants and employs a staff position who is responsible for grant accounting and reporting. In some cases, under the terms of the grant agreement, a fiscal report is required to be filed that details expenses incurred and charged against the grant. The fiscal report is not part of the direct conduct or supervision of the grant but rather an accounting function. Therefore, the staff person's compensation and benefits would not be allocated to the grant. However, a scientific report prepared by a staff person who is responsible for the research activity would be indicative of direct conduct and/or direct supervision of the grant activity, and the principal investigator's compensation and benefits could be allocated to the grant.

2. Investments

Investments are maintained in custodial accounts with an investment firm. The cost basis and market value of investments held are as follows at June 30:

	2017		2016	
	Basis	Market	Basis	Market
Interest bearing cash	\$ 55,576	\$ 55,615	\$ 22,128	\$ 22,128
Common stock	336,962	372,203	406,785	377,893
Bonds	166,910	169,375	143,189	142,256
Alternative investments	50,119	49,660	34,969	36,578
Total Investments	<u>\$ 609,567</u>	<u>\$ 646,853</u>	<u>\$ 607,071</u>	<u>\$ 578,855</u>

The components of investment income (loss) are as follows for the years ended June 30:

	2017	2016
Interest and dividends	\$ 15,614	\$ 18,205
Net gains and losses, realized and unrealized	58,554	(30,851)
Investments fees	(5,764)	(5,082)
Investment income (loss), net	<u>\$ 68,404</u>	<u>\$ (17,728)</u>

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

3. Fair Value Measurements

The Financial Accounting Standards Board developed the Accounting Standards Codification 820, *Fair Value Measurements*, to establish a framework for measuring fair value. That framework provides a fair value hierarchy that 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under the “Fair Value Measurements” guidance 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 include (1) quoted prices for similar assets in active markets (2) quoted prices for identical or similar assets in inactive markets (3) inputs other than quoted market prices that are observable from the asset (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Assets itemized below were measured at fair value during the year ended using the market approach. There have been no changes in the methodologies used at June 30, 2017. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017 and 2016.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2017				
Interest bearing cash	\$ 55,615	\$ 55,615	\$ -	\$ -
Common stock	372,203	372,203	-	-
Bonds	169,375	169,375	-	-
Alternative investments	<u>49,660</u>	<u>49,660</u>	<u>-</u>	<u>-</u>
Total Investments	<u><u>\$ 646,853</u></u>	<u><u>\$ 646,853</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2016				
Interest bearing cash	\$ 22,128	\$ 22,128	\$ -	\$ -
Common stock	377,893	377,893	-	-
Bonds	142,256	142,256	-	-
Alternative investments	<u>36,578</u>	<u>36,578</u>	<u>-</u>	<u>-</u>
Total Investments	<u><u>\$ 578,855</u></u>	<u><u>\$ 578,855</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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4. Grants Receivable

The following is a schedule detailing the balance of grants receivable at June 30:

	<u>2017</u>	<u>2016</u>
Montana State DPHHS		
TANF Food Revenue	\$ -	\$ 13,239
House Bill #2: Transportation Assistance Grant	-	2,716
Supplemental Nutrition Assistance Program	2,989	3,535
United States Department of Agriculture		
Emergency Food Assistance Program	<u>51,031</u>	<u>8,171</u>
Total grants receivable	<u>\$ 54,020</u>	<u>\$ 27,661</u>

The balance of grants receivable at June 30, 2017 and 2016 are expected to be collected within one year.

5. Conditional Grants Receivable

MFBN had the following conditional grants receivable that are not recognized as assets in the statement of financial position at June 30, 2017 and 2016. The grants are reimbursement based contracts that are conditional upon related expenditures being made.

	<u>2017</u>	<u>2016</u>
Montana State DPHHS		
Award "Emergency Food Assistance Program"	<u>\$ 19,851</u>	<u>\$ 20,385</u>

6. Property and Equipment

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 67,500	\$ 67,500
Buildings	1,221,245	1,221,245
Building improvements	347,797	310,668
Machinery and equipment	953,583	868,473
Computer equipment and software	215,942	211,802
Construction in progress	<u>4,466</u>	<u>3,583</u>
	2,810,533	2,683,271
Less accumulated depreciation	<u>(1,391,318)</u>	<u>(1,251,011)</u>
Total	<u>\$ 1,419,215</u>	<u>\$ 1,432,260</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$167,713 and \$168,227, respectively.

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7. Employee Benefit Plan

Prior to 2015, Montana Food Bank Network employees participated in an Internal Revenue Code Section 403(b) Defined Contribution Retirement Plan. The 403(b) plan was discontinued in January 2015 and all plan assets were distributed to participant individual retirement accounts under a SIMPLE IRA Plan. Under the terms of the SIMPLE IRA Plan, the employer will match up to 3% of eligible employee contributions. During the years ended June 30, 2017 and 2016, Montana Food Bank Network made matching contributions of \$19,851 and \$18,670, respectively. Matching contributions for the year ended June 30, 2015 did not begin until the SIMPLE IRA Plan was established in January 2015.

8. Line of Credit

MFBN has one line of credit with a local bank which provides borrowings up to a maximum of \$50,000, at a rate of 4.50% and matures in August 2017. As of June 30, 2017 and 2016, the line of credit had no outstanding balance.

9. Notes and Mortgages Payable

Notes and mortgages payable were as follows at June 30:

	<u>2017</u>	<u>2016</u>
Note payable to First Security Bank due November 2024, with interest at 4.25%, monthly payments of \$2,910; secured by building and land. This note was paid in full in November of 2016.	\$ -	\$ 246,400
Note payable to TD Auto Finance due April 2020, with interest at 4.47%, monthly payments of \$370. This note was paid in full in November of 2016.	<u>-</u>	<u>15,630</u>
Total notes and mortgages payable	-	262,030
Less current portion	<u>-</u>	<u>(28,763)</u>
Notes and mortgages payable, net	<u><u>\$ -</u></u>	<u><u>\$ 233,267</u></u>

Montana Food Bank Network
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10. Net Assets without Donor Restrictions

At June 30, 2017 the Organization reported net assets without donor restrictions of \$3,791,350. As part of the Organization's contract with Feeding America, the Organization is required to hold in cash reserve a minimum of three months of operating expenses. The amount of operating expenses held in reserve fluctuates from year to year based on the Organization's budgeted operating expenses. At June 30, 2017, the amount of operating expenses held in reserve totaled \$917,692.

11. Net Assets with Donor Restrictions

Restrictions on net assets consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Public policy and advocacy support	\$ 35,674	\$ -
Restricted for vehicle, building, and equipment	61,800	31,935
Food distribution support	81,609	76,736
Backpack program	<u>70,891</u>	<u>107,249</u>
 Total net assets with donor restrictions	 <u>\$ 249,974</u>	 <u>\$ 215,920</u>

The table above presents the composition of net assets with donor restrictions. As of June 30, 2017, \$242,474 are restricted by donors as to their use, while \$7,500 are restricted by donors as to their use as well as by the passage of time.

12. Financial Assets

The table below reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts that are not available for general use due to contractual or donor imposed restrictions within one year of the statement of financial position date:

Financial assets as of June 30, 2017:	
Cash	\$ 1,288,268
Receivables	112,630
Investments	<u>646,853</u>
	2,047,751
Less: Financial assets unavailable for general expenditures within one year, due to:	
Financial assets with donor restrictions	(249,974)
First nonprofit unemployment insurance reserve	(13,155)
Amounts set aside for liquidity reserve	<u>(917,692)</u>
Financial assets available to meet cash needs for general expenditures	<u>\$ 866,930</u>

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13. Reclassifications

Certain reclassifications to the statements of financial position and statements of activities have been made to the 2016 financial statement presentation to correspond to the current year's format. During the year ended June 30, 2017, the Organization has adopted FASB Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

The effects of the implementation of ASU 2016-14 require the reclassification of the classes of net assets reflected in the financial statements for the year ended June 30, 2016. There was no effect on total net assets or changes in net assets for the year ended June 30, 2016 as a result of these reclassifications.

14. Subsequent Events

The organization has evaluated subsequent events through September 18, 2017, the date on which the financial statements were available to be issued.

In August 2017, the Organization purchased a new semi tractor and trailer in the amount of \$138,050 that will be used in the food distribution program. The purchase was made using the Organization's cash without donor restrictions.