

Montana Food Bank Network

Audited Financial Statements

June 30, 2018 and 2017



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, 2018 and 2017, 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2018 and 2017, 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 14, 2018

Montana Food Bank Network
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 1,015,093	\$ 1,288,268
Accounts receivable	56,804	58,561
Grants receivable	43,690	54,020
Pledges receivable	113,116	49
Inventories	622,437	653,733
Prepaid expenses	14,835	21,146
Total current assets	1,865,975	2,075,777
Other assets		
Property and equipment, net	1,454,523	1,419,215
Investments	679,920	646,853
Total other assets	2,134,443	2,066,068
Total assets	\$ 4,000,418	\$ 4,141,845
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 32,454	\$ 45,657
Accrued liabilities	66,120	54,864
Total current liabilities	98,574	100,521
Net assets		
Net assets without donor restrictions	3,632,213	3,791,350
Net assets with donor restrictions	269,631	249,974
Total net assets	3,901,844	4,041,324
Total liabilities and net assets	\$ 4,000,418	\$ 4,141,845

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

**Montana Food Bank Network
Statement of Activities
For the Year Ended June 30, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Value of donated food	\$ 14,541,303	\$ -	\$ 14,541,303
Contributions	1,151,997	16,861	1,168,858
Contributions - in-kind	51,850	-	51,850
Grants	251,249	445,070	696,319
Special events	282,251	14,850	297,101
Net assets released from restriction	<u>457,124</u>	<u>(457,124)</u>	<u>-</u>
Total public support	16,735,774	19,657	16,755,431
Revenue			
Shared maintenance fees	62,740	-	62,740
Partnership food sales	1,326,478	-	1,326,478
Other revenue	<u>76,973</u>	<u>-</u>	<u>76,973</u>
Total revenue	<u>1,466,191</u>	<u>-</u>	<u>1,466,191</u>
Total public support and revenue	18,201,965	19,657	18,221,622
Expenses			
Program services			
Value of donated food distributed	14,704,589	-	14,704,589
Food distribution	2,556,591	-	2,556,591
Public policy	<u>226,074</u>	<u>-</u>	<u>226,074</u>
Total program services	17,487,254	-	17,487,254
Support services			
Administration	241,724	-	241,724
Fundraising	<u>632,124</u>	<u>-</u>	<u>632,124</u>
Total support services	<u>873,848</u>	<u>-</u>	<u>873,848</u>
Total program and support services	<u>18,361,102</u>	<u>-</u>	<u>18,361,102</u>
Change in net assets	(159,137)	19,657	(139,480)
Net assets - beginning of year	<u>3,791,350</u>	<u>249,974</u>	<u>4,041,324</u>
Net assets - end of year	<u>\$ 3,632,213</u>	<u>\$ 269,631</u>	<u>\$ 3,901,844</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, 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 Functional Expenses
For the Year Ended June 30, 2018**

	<u>Food Distribution</u>	<u>Public Policy</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Value of donated food distributed	\$ 14,704,589	\$ -	\$ -	\$ -	\$ 14,704,589
Cost of food delivered	1,659,308	-	-	-	1,659,308
Salaries	354,961	116,512	148,659	138,098	758,230
Payroll taxes	36,621	9,257	12,391	11,101	69,370
Employee benefits	45,002	16,686	16,960	14,561	93,209
Training	5,225	4,330	10,276	8,787	28,618
Travel	19,105	9,217	6,391	4,580	39,293
Supplies	15,227	2,601	2,278	11,826	31,932
Printing and publications	946	1,379	207	116,678	119,210
Postage and delivery	873	1,347	985	69,918	73,123
Telephone	4,908	2,193	1,483	1,782	10,366
Advertising	-	2,793	-	16,878	19,671
Contract services	36,555	42,606	11,312	211,155	301,628
Professional fees	512	52	18,729	68	19,361
Conference and meeting costs	3,135	5,049	245	259	8,688
Agency grants	51,940	-	-	-	51,940
Insurance	12,662	2,617	2,471	3,909	21,659
Dues and subscriptions	12,335	630	2,252	4,122	19,339
Utilities	29,311	994	666	1,325	32,296
Equipment purchases	5,165	1,109	537	710	7,521
Depreciation	192,970	6,140	4,988	8,058	212,156
Repairs and maintenance	40,193	556	452	1,132	42,333
Fuel, oil, and gas	29,457	-	-	54	29,511
Bank and finance charges	78	-	30	6,645	6,753
Other	102	6	412	478	998
Total expenses	<u>\$ 17,261,180</u>	<u>\$ 226,074</u>	<u>\$ 241,724</u>	<u>\$ 632,124</u>	<u>\$ 18,361,102</u>
Percentage of total expenses	94.0 %	1.2 %	1.3 %	3.5 %	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, 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
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (139,480)	\$ 183,766
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	212,156	167,713
(Gain) on disposal of assets	(10,500)	(11,320)
Unrealized (gain) on investments	(17,976)	(58,554)
Changes in operating assets and liabilities		
Receivables	(100,980)	(31,599)
Inventories	31,296	23,975
Prepaid expenses	6,311	3,589
Accounts payable	(13,203)	(17,195)
Accrued liabilities	<u>11,256</u>	<u>17,063</u>
Net cash from operating activities	<u>(21,120)</u>	<u>277,438</u>
Cash flows from investing activities		
Purchase of property and equipment	(267,056)	(158,464)
Proceeds from sales of property and equipment	25,625	16,000
Net (purchases) of investments and reinvestments	<u>(10,624)</u>	<u>(10,328)</u>
Net cash from investing activities	<u>(252,055)</u>	<u>(152,792)</u>
Cash flows from financing activities		
Payments on long-term debt	<u>-</u>	<u>(262,030)</u>
Net cash from financing activities	<u>-</u>	<u>(262,030)</u>
Net change in cash	(273,175)	(137,384)
Cash and cash equivalents - beginning of year	<u>1,288,268</u>	<u>1,425,652</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,015,093</u></u>	<u><u>\$ 1,288,268</u></u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ -	\$ 5,122

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

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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. MFBN is a network made up of over 280 community food banks, pantries, social organizations, homeless shelters, schools, and many others that are partners in ending hunger. The Organization coordinates the hunger-relief work of its Network Partners 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 supporting a Mobile Food Pantry and Mail-A-Meal Program 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.

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.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

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 a 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 .

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.

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 \$75 and \$480 were recorded during the years ended June 30, 2018 and 2017, respectively. Management estimates the allowance for doubtful accounts to be zero at June 30, 2018 and 2017.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

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 \$1.68 and \$1.73 per pound as of June 30, 2018 and 2017, 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 various qualifying services were \$51,850 and \$12,954 for the years ended June 30, 2018 and 2017, 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 \$162,702 and \$59,312 for the years ended June 30 2018 and 2017, respectively. During the year ended June 30, 2018, the Organization had an AmeriCorps VISTA member work with the Organization which partially contributes to the increase in estimated value.

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. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction is the restrictions expire in the reporting period in which the revenue is recognized.

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.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. This code section enables the Organization to accept donations that qualify as charitable contributions to the donor. Income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. No provision for income taxes has been recorded in the accompanying financial statements as the Organization did not have any unrelated business income during the years ended June 30, 2018 and 2017.

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. On the following page, the expenses that are allocated include:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Payroll taxes	Time and effort
Benefits	Time and effort
Insurance	Time and effort
Printing	Time and effort
Supplies	Time and effort
Communication	Time and effort
Interest	Square Footage
Janitorial	Square Footage
Utilities	Square Footage
Depreciation	Time and effort, square footage, or equal benefit depending on the asset

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.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

Management and General Cost Allocation (Continued)

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:

	2018		2017	
	Basis	Market	Basis	Market
Interest bearing cash	\$ 34,270	\$ 34,316	\$ 55,576	\$ 55,615
Common stock	371,250	428,984	336,962	372,203
Bonds	150,861	148,635	166,910	169,375
Alternative investments	67,023	67,985	50,119	49,660
Total Investments	\$ 623,404	\$ 679,920	\$ 609,567	\$ 646,853

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

	2018	2017
Interest and dividends	\$ 21,904	\$ 15,614
Net gains and losses, realized and unrealized	17,976	58,554
Investments fees	(6,348)	(5,764)
Investment income	\$ 33,532	\$ 68,404

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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, 2018. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018 and 2017.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2018				
Interest bearing cash	\$ 34,316	\$ 34,316	\$ -	\$ -
Common stock	428,984	428,984	-	-
Bonds	148,635	148,635	-	-
Alternative investments	<u>67,985</u>	<u>67,985</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 679,920</u>	<u>\$ 679,920</u>	<u>\$ -</u>	<u>\$ -</u>
	<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>\$ 646,853</u>	<u>\$ 646,853</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>2018</u>	<u>2017</u>
Montana State DPHHS		
Supplemental Nutrition Assistance Program	1,465	2,989
United States Department of Agriculture		
Emergency Food Assistance Program	<u>42,225</u>	<u>51,031</u>
Total grants receivable	<u>\$ 43,690</u>	<u>\$ 54,020</u>

The balance of grants receivable at June 30, 2018 and 2017 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, 2018 and 2017. The grants are reimbursement based contracts that are conditional upon related expenditures being made.

	<u>2018</u>	<u>2017</u>
Montana State DPHHS		
Award "Emergency Food Assistance Program"	\$ 27,500	\$ 19,851
Award "Supplemental Nutrition Assistance Program"	<u>6,112</u>	<u>-</u>
Total	<u>\$ 33,612</u>	<u>\$ 19,851</u>

6. Pledges Receivable

The Organization had \$113,116 and \$49 of pledges receivable at June 30, 2018 and 2017, respectively. The balance of pledges receivable at June 30, 2018 and 2017 are expected to be collected within one year. There is no allowance for uncollectible pledges receivable as management believes the pledges are fully collectable.

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7. Property and Equipment

Property and equipment consists of the following:

	2018	2017
Land	\$ 67,500	\$ 67,500
Buildings	1,221,245	1,221,245
Building improvements	386,701	347,797
Machinery and equipment	1,066,564	953,583
Computer equipment and software	218,708	215,942
Construction in progress	-	4,466
	2,960,718	2,810,533
Less accumulated depreciation	(1,506,195)	(1,391,318)
Total	\$ 1,454,523	\$ 1,419,215

Depreciation expense for the years ended June 30, 2018 and 2017 was \$212,156 and \$167,713, respectively. The Organization has \$12,000 of machinery and equipment that is currently held for sale at June 30, 2018. The Organization expects to be able to sell this asset within one year.

8. Employee Benefit Plan

Montana Food Bank Network employees participate in 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, 2018 and 2017, Montana Food Bank Network made matching contributions of \$20,085 and \$19,851, respectively.

9. 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 2018. As of June 30, 2018 and 2017, the line of credit had no outstanding balance.

10. Net Assets without Donor Restrictions

At June 30, 2018 and 2017 the Organization reported net assets without donor restrictions of \$3,632,213 and \$3,791,350, respectively. 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, 2018 and 2017, the amount of operating expenses held in reserve totaled \$852,771 and \$917,692, respectively.

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11. Net Assets with Donor Restrictions

Restrictions on net assets consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Public policy and advocacy support	\$ 57,587	\$ 35,674
Restricted for vehicle, building, and equipment	-	61,800
Food distribution support	28,575	81,609
Backpack program	59,803	70,891
Food capacity	2,050	-
Restricted by time requirements	<u>121,616</u>	<u>-</u>
 Total net assets with donor restrictions	 <u>\$ 269,631</u>	 <u>\$ 249,974</u>

The table above presents the composition of net assets with donor restrictions. As of June 30, 2018 and 2017, \$141,515 and \$242,474, respectively, are restricted by donors as to their use, while \$121,616 and zero, respectively, are restricted by donors by the passage of time. Additionally, as of June 30, 2018 and 2017, \$6,500 and \$7,500, respectively, are restricted by donors as to their use as well as by the passage of time.

12. Financial Assets

The table on the following page 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:

	<u>2018</u>	<u>2017</u>
Financial assets as of June 30,		
Cash	\$ 1,015,093	\$ 1,288,268
Receivables	213,610	112,630
Investments	<u>679,920</u>	<u>646,853</u>
	1,908,623	2,047,751
 Less: Financial assets unavailable for general expenditures within one year, due to:		
Financial assets with donor restrictions	(269,631)	(249,974)
First Nonprofit unemployment insurance reserve	(14,579)	(13,155)
Amounts set aside for liquidity reserve	<u>(852,771)</u>	<u>(917,692)</u>
 Financial assets available to meet cash needs for general expenditure	 <u>\$ 771,642</u>	 <u>\$ 866,930</u>

13. Subsequent Events

The Organization has evaluated subsequent events through September 14, 2018, the date on which the financial statements were available to be issued and there were no events required to be reported.