

Montana Food Bank Network

Audited Financial Statements

June 30, 2020 and 2019



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, 2020 and 2019, 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 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 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, 2020 and 2019, 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.

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

Missoula, Montana
September 22, 2020

Montana Food Bank Network
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 2,185,964	\$ 1,137,806
Accounts receivable	105,519	81,032
Grants receivable	268,821	57,521
Pledges receivable	122,787	151,748
Inventories	666,029	634,252
Prepaid expenses	6,043	13,853
Total current assets	3,355,163	2,076,212
Other assets		
Property and equipment, net	2,595,405	1,254,370
Investments	721,240	711,187
Total other assets	3,316,645	1,965,557
Total assets	\$ 6,671,808	\$ 4,041,769
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 307,907	\$ 53,259
Accrued liabilities	60,479	80,185
Capital lease obligation, current	2,736	2,613
Total current liabilities	371,122	136,057
Long-term liabilities		
Capital lease obligation, net of current portion	6,119	8,855
Notes payable	783,700	-
Total long-term liabilities	789,819	8,855
Total liabilities	1,160,941	144,912
Net assets		
Net assets without donor restrictions	4,714,006	3,584,343
Net assets with donor restrictions	796,861	312,514
Total net assets	5,510,867	3,896,857
Total liabilities and net assets	\$ 6,671,808	\$ 4,041,769

See the independent auditors' report and the accompanying notes to the financial statements.

**Montana Food Bank Network
Statement of Activities
For the Year Ended June 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Value of donated food	\$ 19,312,583	\$ -	\$ 19,312,583
Contributions	1,532,974	9,909	1,542,883
Contributions - in-kind	20,067	-	20,067
Grants	848,796	2,082,348	2,931,144
Special events	150,022	-	150,022
Net assets released from restriction	<u>1,607,910</u>	<u>(1,607,910)</u>	<u>-</u>
Total public support	23,472,352	484,347	23,956,699
Revenue			
Shared maintenance fees	19,342	-	19,342
Partnership food sales	1,890,821	-	1,890,821
Other revenue	<u>43,516</u>	<u>-</u>	<u>43,516</u>
Total revenue	<u>1,953,679</u>	<u>-</u>	<u>1,953,679</u>
Total public support and revenue	25,426,031	484,347	25,910,378
Expenses			
Program services			
Value of donated food distributed	19,293,503	-	19,293,503
Food distribution	3,754,650	-	3,754,650
Public policy	<u>212,933</u>	<u>-</u>	<u>212,933</u>
Total program services	23,261,086	-	23,261,086
Support services			
Administration	333,492	-	333,492
Fundraising	<u>701,790</u>	<u>-</u>	<u>701,790</u>
Total support services	<u>1,035,282</u>	<u>-</u>	<u>1,035,282</u>
Total program and support services	<u>24,296,368</u>	<u>-</u>	<u>24,296,368</u>
Change in net assets	1,129,663	484,347	1,614,010
Net assets - beginning of year	<u>3,584,343</u>	<u>312,514</u>	<u>3,896,857</u>
Net assets - end of year	<u>\$ 4,714,006</u>	<u>\$ 796,861</u>	<u>\$ 5,510,867</u>

See the independent auditors' report and the accompanying notes to the financial statements.

**Montana Food Bank Network
Statement of Activities
For the Year Ended June 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Value of donated food	\$ 17,224,991	\$ -	\$ 17,224,991
Contributions	1,028,308	50,584	1,078,892
Contributions - in-kind	1,023	-	1,023
Grants	409,211	565,101	974,312
Special events	226,533	82,905	309,438
Net assets released from restriction	<u>655,707</u>	<u>(655,707)</u>	<u>-</u>
Total public support	19,545,773	42,883	19,588,656
Revenue			
Shared maintenance fees	38,522	-	38,522
Partnership food sales	1,409,907	-	1,409,907
Other revenue	<u>61,915</u>	<u>-</u>	<u>61,915</u>
Total revenue	<u>1,510,344</u>	<u>-</u>	<u>1,510,344</u>
Total public support and revenue	21,056,117	42,883	21,099,000
Expenses			
Program services			
Value of donated food distributed	17,225,507	-	17,225,507
Food distribution	2,702,045	-	2,702,045
Public policy	<u>245,380</u>	<u>-</u>	<u>245,380</u>
Total program services	20,172,932	-	20,172,932
Support services			
Administration	291,079	-	291,079
Fundraising	<u>639,976</u>	<u>-</u>	<u>639,976</u>
Total support services	<u>931,055</u>	<u>-</u>	<u>931,055</u>
Total program and support services	<u>21,103,987</u>	<u>-</u>	<u>21,103,987</u>
Change in net assets	(47,870)	42,883	(4,987)
Net assets - beginning of year	<u>3,632,213</u>	<u>269,631</u>	<u>3,901,844</u>
Net assets - end of year	<u>\$ 3,584,343</u>	<u>\$ 312,514</u>	<u>\$ 3,896,857</u>

See the independent auditors' report and the accompanying notes to the financial statements.

**Montana Food Bank Network
Statement of Functional Expenses
For the Year Ended June 30, 2020**

	<u>Food Distribution</u>	<u>Public Policy</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Value of donated food distributed	\$ 19,293,503	\$ -	\$ -	\$ -	\$ 19,293,503
Cost of food delivered	2,463,025	-	-	-	2,463,025
Salaries	430,000	132,259	217,556	182,058	961,873
Payroll taxes	50,982	10,786	18,020	15,027	94,815
Employee benefits	53,305	17,197	22,336	17,796	110,634
Training	6,053	2,552	1,556	531	10,692
Travel	10,340	4,003	2,682	2,741	19,766
Supplies	29,847	1,734	754	7,600	39,935
Printing and publications	822	2,234	403	174,366	177,825
Postage and delivery	721	2,293	1,188	106,923	111,125
Telephone	8,089	4,107	4,038	3,583	19,817
Advertising	-	150	-	7,901	8,051
Contract services	36,105	11,581	12,799	104,071	164,556
Professional fees	23,760	7,920	27,230	41,362	100,272
Conference and meeting costs	799	2,127	1,823	366	5,115
Agency grants	300,323	-	-	-	300,323
Insurance	11,835	2,888	2,036	4,088	20,847
Dues and subscriptions	13,531	197	9,773	7,969	31,470
Utilities	30,752	1,043	702	1,390	33,887
Equipment purchases	5,973	2,695	576	1,854	11,098
Depreciation	165,288	6,525	8,131	8,820	188,764
Repairs and maintenance	74,843	537	578	704	76,662
Fuel, oil, and gas	38,161	-	-	26	38,187
Interest	69	75	165	162	471
Bank and finance charges	-	-	68	10,551	10,619
Other	27	30	1,078	1,901	3,036
	<u>\$ 23,048,153</u>	<u>\$ 212,933</u>	<u>\$ 333,492</u>	<u>\$ 701,790</u>	<u>\$ 24,296,368</u>
Total expenses					
Percentage of total expenses	94.9 %	0.9 %	1.4 %	2.9 %	100 %

See the independent auditors' report and the accompanying notes to the financial statements.

**Montana Food Bank Network
Statement of Functional Expenses
For the Year Ended June 30, 2019**

	<u>Food Distribution</u>	<u>Public Policy</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Value of donated food distributed	\$ 17,225,507	\$ -	\$ -	\$ -	\$ 17,225,507
Cost of food delivered	1,844,694	-	-	52	1,844,746
Salaries	330,436	121,225	185,330	164,806	801,797
Payroll taxes	34,153	9,811	15,622	13,470	73,056
Employee benefits	43,197	18,414	22,580	14,498	98,689
Training	9,128	8,468	7,094	3,980	28,670
Travel	15,408	12,338	4,911	2,316	34,973
Supplies	12,365	1,334	988	17,691	32,378
Printing and publications	174	6,276	424	170,716	177,590
Postage and delivery	713	2,526	1,029	98,321	102,589
Telephone	4,274	2,291	1,528	1,691	9,784
Advertising	-	6,538	49	8,811	15,398
Contract services	21,114	12,574	15,606	114,321	163,615
Professional fees	-	-	19,104	-	19,104
Conference and meeting costs	4,353	3,278	553	311	8,495
Agency grants	47,804	28,384	-	-	76,188
Insurance	11,283	2,873	1,897	3,943	19,996
Dues and subscriptions	16,101	183	1,399	6,905	24,588
Utilities	32,371	1,087	728	1,447	35,633
Equipment purchases	993	542	381	21	1,937
Depreciation	183,205	6,072	8,662	8,137	206,076
Repairs and maintenance	52,450	504	468	662	54,084
Fuel, oil, and gas	37,759	-	-	-	37,759
Interest	57	98	205	187	547
Bank and finance charges	-	-	271	6,711	6,982
Other	13	564	2,250	979	3,806
	<u>\$ 19,927,552</u>	<u>\$ 245,380</u>	<u>\$ 291,079</u>	<u>\$ 639,976</u>	<u>\$ 21,103,987</u>
Total expenses					
Percentage of total expenses	94.4 %	1.2 %	1.4 %	3.0 %	100 %

See the independent auditors' report and the accompanying notes to the financial statements.

Montana Food Bank Network
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 1,614,010	\$ (4,987)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	188,764	206,076
Loss on disposal of assets	5,604	3,645
Unrealized loss (gain) on investments	5,107	(19,094)
Changes in operating assets and liabilities		
Receivables	(206,826)	(76,691)
Inventories	(31,777)	(11,815)
Prepaid expenses	7,810	982
Accounts payable	254,648	20,805
Accrued liabilities	<u>(19,706)</u>	<u>14,065</u>
Net cash provided by operating activities	<u>1,817,634</u>	<u>132,986</u>
Cash flows from investing activities		
Purchase of property and equipment	(975,376)	(4,172)
Proceeds from sales of property and equipment	-	8,350
Net purchases of investments and reinvestments	<u>(15,187)</u>	<u>(12,169)</u>
Net cash used in investing activities	<u>(990,563)</u>	<u>(7,991)</u>
Cash flows from financing activities		
Proceeds from long-term debt	223,700	-
Principle payments on capital lease obligation	<u>(2,613)</u>	<u>(2,282)</u>
Net cash provided by financing activities	<u>221,087</u>	<u>(2,282)</u>
Net change in cash	1,048,158	122,713
Cash and cash equivalents - beginning of year	<u>1,137,806</u>	<u>1,015,093</u>
Cash and cash equivalents - end of year	<u>\$ 2,185,964</u>	<u>\$ 1,137,806</u>
Non-Cash Investing and Financing Activities		
Debt financed purchase of real property	\$ 560,000	\$ -
Capitalized equipment lease	\$ -	\$ 13,750
Supplemental Cash Flow Information		
Cash paid for interest	\$ 471	\$ 547

See the independent auditors' report and the accompanying notes to the financial statements.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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.

Adoption of ASU 2018-08

During the year ended June 30, 2020, the Organization adopted FASB Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The Organization's prior policy of revenue recognition agreed to the new standard and there was no prior period effect upon implementation.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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 the 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 3.

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, 2020 and 2019

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 \$1,849 and \$979 were recorded during the years ended June 30, 2020 and 2019, respectively. Management estimates the allowance for doubtful accounts to be zero at June 30, 2020 and 2019.

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 \$1.74 and \$1.62 per pound as of June 30, 2020 and 2019, 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.

Long-Term Debt

During the year-ended June 30, 2020, the Organization applied for, and received, loan proceeds under the Small Business Administration's Paycheck Protection Program. The Organization has recorded the proceeds as a liability in accordance with ASC 405-20-40-1, under which derecognition of a liability occurs only if it has been extinguished. See Note 9 for additional details.

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 \$20,067 and \$1,023 for the years ended June 30, 2020 and 2019, 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 \$26,990 and \$95,639 for the years ended June 30 2020 and 2019, 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, 2020 and 2019

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

Contributions and Pledges (continued)

Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if 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.

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, 2020 and 2019.

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:

**Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2020 and 2019**

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

Program and Cost Allocation (continued)

<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.

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.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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:

	2020		2019	
	Basis	Market	Basis	Market
Interest bearing cash	\$ 52,385	\$ 52,391	\$ 47,484	\$ 47,575
Common stock	390,439	452,039	373,700	435,154
Bonds	168,850	166,238	159,711	160,737
Alternative investments	56,019	50,572	66,799	67,721
Total Investments	<u>\$ 667,693</u>	<u>\$ 721,240</u>	<u>\$ 647,694</u>	<u>\$ 711,187</u>

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

	2020	2019
Interest and dividends	\$ 22,106	\$ 19,359
Net gains and losses, realized and unrealized	(5,107)	19,094
Investments fees	(6,642)	(6,385)
Investment income, net	<u>\$ 10,357</u>	<u>\$ 32,068</u>

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.

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3. Fair Value Measurements (continued)

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 using the market approach. There have been no changes in the methodologies used at June 30, 2020. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020 and 2019.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2020				
Interest bearing cash	\$ 52,391	\$ 52,391	\$ -	\$ -
Common stock	452,039	452,039	-	-
Bonds	166,238	166,238	-	-
Alternative investments	<u>50,572</u>	<u>50,572</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 721,240</u>	<u>\$ 721,240</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2019				
Interest bearing cash	\$ 47,575	\$ 47,575	\$ -	\$ -
Common stock	435,154	435,154	-	-
Bonds	160,737	160,737	-	-
Alternative investments	<u>67,721</u>	<u>67,721</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 711,187</u>	<u>\$ 711,187</u>	<u>\$ -</u>	<u>\$ -</u>

4. Grants Receivable

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

	<u>2020</u>	<u>2019</u>
Montana State DPHHS		
Families First Coronavirus Relief Act (FFCRA)	\$ 71,280	\$ -
Coronavirus Aid, Relief, and Economic Security Act (CARES)	186,399	-
Supplemental Nutrition Assistance Program	1,553	2,393
United States Department of Agriculture		
Emergency Food Assistance Program	<u>9,589</u>	<u>55,128</u>
Total grants receivable	<u>\$ 268,821</u>	<u>\$ 57,521</u>

The balance of grants receivable at June 30, 2020 and 2019 are expected to be collected within one year.

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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, 2020 and 2019. The grants are reimbursement based contracts that are conditional upon related expenditures being made.

	<u>2020</u>	<u>2019</u>
Montana State DPHHS		
Award "Emergency Food Assistance Program"	\$ 51,730	\$ 74,185
Award "Supplemental Nutrition Assistance Program"	5,861	5,057
Award "Families First Coronavirus Relief Act"	52,986	-
Award "Trade Mitigation"	<u>12,357</u>	<u>-</u>
Total	<u>\$ 122,934</u>	<u>\$ 79,242</u>

6. Pledges Receivable

The Organization had \$122,787 and \$151,748 of pledges receivable at June 30, 2020 and 2019, respectively. The balance of pledges receivable at June 30, 2020 and 2019 are expected to be collected within one year. There is no allowance for uncollectible pledges receivable as management believes the pledges are fully collectable.

7. Property and Equipment

Property and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,019,873	\$ 67,500
Buildings	1,221,245	1,221,245
Building improvements	393,418	386,701
Machinery and equipment	1,579,561	1,054,565
Computer equipment and software	<u>255,503</u>	<u>229,530</u>
	4,469,600	2,959,541
Less accumulated depreciation	<u>(1,874,195)</u>	<u>(1,705,171)</u>
Total	<u>\$ 2,595,405</u>	<u>\$ 1,254,370</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$188,764 and \$206,076, respectively.

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8. Capital Leases

Equipment under capital lease consists of a copier with a capitalized cost of \$13,750. Accumulated depreciation related to the leased copier in the statements of financial position was \$5,500 and \$2,750 at June 30, 2020 and 2019, respectively. Depreciation expense reported in the statements of functional expense includes \$2,750 and \$2,750 for the years ended June 30, 2020 and 2019, respectively, for the equipment under capital lease. Interest expense related to the capital lease reported in the statements of functional expense was \$471 and \$547 for the years ended June 30, 2020 and 2019, respectively. The lease period is for sixty (60) months, which is equal to the estimated economic useful life of the copier.

Future minimum lease payments are as follows for the years ended December 31:

	2021	\$	2,736
	2022		2,864
	2023		2,998
	2024		<u>257</u>
Total future minimum lease payments		<u>\$</u>	<u>8,855</u>

9. Notes Payable

Total interest expense related to notes payable reported in the statements of functional expense for the years ended June 30, 2020 and 2019 was zero.

Notes payable consist of the following at December 31:

	2020	2019
Note payable, collateralized by real property, principle due upon maturity, monthly interest payments at 3.50%, maturing on June 2, 2023.	\$ 560,000	\$ -
Small Business Association Paycheck Protection Program note payable, unforgiven principle due upon maturity, interest accruing monthly at 1%, maturing on April 10, 2022. Under the terms of the loan, the Organization must incur qualifying expenditures and follow other provisions to satisfy the loan forgiveness provisions. Management expects to meet these provisions during the fiscal year ended June 30, 2021.	<u>223,700</u>	<u>-</u>
Total Long-Term Debt	783,700	-
Less: Current Portion	<u>-</u>	<u>-</u>
Total	<u>\$ 783,700</u>	<u>\$ -</u>

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9. Notes Payable (continued)

Maturities of long-term debt are as follows during the years ended December 31:

2022	\$ 223,700
2023	<u>560,000</u>
 Total	 <u>\$ 783,700</u>

10. 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, 2020 and 2019, Montana Food Bank Network made matching contributions of \$25,233 and \$20,145, respectively.

11. 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 2020. As of June 30, 2020 and 2019, the line of credit had no outstanding balance.

12. Net Assets Without Donor Restrictions

At June 30, 2020 and 2019 the Organization reported net assets without donor restrictions of \$4,714,006 and \$3,584,343, 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, 2020 and 2019, the amount of operating expenses held in reserve totaled \$925,416 and \$881,910, respectively.

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13. Net Assets With Donor Restrictions

Restrictions on net assets consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Food distribution support	\$ 608,937	\$ 109,091
Backpack program	27,137	40,150
Food capacity	38,000	10,525
Restricted by time requirements	<u>122,787</u>	<u>152,748</u>
 Total net assets with donor restrictions	 <u>\$ 796,861</u>	 <u>\$ 312,514</u>

The table above presents the composition of net assets with donor restrictions. As of June 30, 2020 and 2019, \$674,074 and \$159,766, respectively, are restricted by donors as to their use, while \$122,787 and \$152,748, respectively, are restricted by donors by the passage of time. Additionally, as of June 30, 2020 and 2019, \$122,787 and \$15,500, respectively, are restricted by donors as to their use as well as by the passage of time.

14. 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:

Financial assets as of June 30,	<u>2020</u>	<u>2019</u>
Cash	\$ 2,185,964	\$ 1,137,806
Receivables	497,127	290,301
Investments	<u>721,240</u>	<u>711,187</u>
	3,404,331	2,139,294
 Less: Financial assets unavailable for general expenditures within one year, due to:		
Financial assets with donor restrictions	(796,861)	(312,514)
First Nonprofit unemployment insurance reserve	(14,012)	(15,000)
Amounts set aside for liquidity reserve	<u>(925,416)</u>	<u>(881,910)</u>
 Financial assets available to meet cash needs for general expenditure	 <u>\$ 1,668,042</u>	 <u>\$ 929,870</u>

15. Subsequent Events

The Organization has evaluated subsequent events through September 22, 2020, the date on which the financial statements were available to be issued and there were no events required to be reported.