

Montana Food Bank Network

Audited Financial Statements

June 30, 2021 and 2020



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, 2021 and 2020, 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, 2021 and 2020, 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 14, 2021

Montana Food Bank Network
Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,449,262	\$ 2,185,964
Accounts receivable	94,726	105,519
Grants receivable	121,111	268,821
Pledges receivable	-	122,787
Inventories	757,157	666,029
Prepaid expenses	<u>23,938</u>	<u>6,043</u>
Total current assets	3,446,194	3,355,163
Other assets		
Property and equipment, net	2,640,479	2,595,405
Investments	<u>931,665</u>	<u>721,240</u>
Total other assets	<u>3,572,144</u>	<u>3,316,645</u>
Total assets	<u><u>\$ 7,018,338</u></u>	<u><u>\$ 6,671,808</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 276,019	\$ 307,907
Accrued liabilities	75,845	60,479
Capital lease obligation, current	<u>2,864</u>	<u>2,736</u>
Total current liabilities	354,728	371,122
Long-term liabilities		
Capital lease obligation, net of current portion	3,255	6,119
Notes payable	<u>-</u>	<u>783,700</u>
Total long-term liabilities	<u>3,255</u>	<u>789,819</u>
Total liabilities	<u>357,983</u>	<u>1,160,941</u>
Net assets		
Net assets without donor restrictions	6,423,491	4,714,006
Net assets with donor restrictions	<u>236,864</u>	<u>796,861</u>
Total net assets	<u>6,660,355</u>	<u>5,510,867</u>
Total liabilities and net assets	<u><u>\$ 7,018,338</u></u>	<u><u>\$ 6,671,808</u></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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Public support			
Value of donated food	\$ 19,953,797	\$ -	\$ 19,953,797
Contributions	1,243,579	1,042,984	2,286,563
Contributions - in-kind	15,020	-	15,020
Grants	2,737,622	322,000	3,059,622
Special events	132,163	-	132,163
Net assets released from restriction	<u>1,924,981</u>	<u>(1,924,981)</u>	<u>-</u>
Total public support	26,007,162	(559,997)	25,447,165
Revenue			
Shared maintenance fees	129,859	-	129,859
Partnership food sales	1,651,057	-	1,651,057
Other revenue	<u>319,642</u>	<u>-</u>	<u>319,642</u>
Total revenue	<u>2,100,558</u>	<u>-</u>	<u>2,100,558</u>
Total public support and revenue	28,107,720	(559,997)	27,547,723
Expenses			
Program services			
Value of donated food distributed	19,970,783	-	19,970,783
Food distribution	4,997,276	-	4,997,276
Public policy	<u>283,823</u>	<u>-</u>	<u>283,823</u>
Total program services	25,251,882	-	25,251,882
Support services			
Administration	346,921	-	346,921
Fundraising	<u>799,432</u>	<u>-</u>	<u>799,432</u>
Total support services	<u>1,146,353</u>	<u>-</u>	<u>1,146,353</u>
Total program and support services	<u>26,398,235</u>	<u>-</u>	<u>26,398,235</u>
Change in net assets	1,709,485	(559,997)	1,149,488
Net assets - beginning of year	<u>4,714,006</u>	<u>796,861</u>	<u>5,510,867</u>
Net assets - end of year	<u><u>\$ 6,423,491</u></u>	<u><u>\$ 236,864</u></u>	<u><u>\$ 6,660,355</u></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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
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><u>\$ 4,714,006</u></u>	<u><u>\$ 796,861</u></u>	<u><u>\$ 5,510,867</u></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, 2021

	Food Distribution	Public Policy	General and Administrative	Fundraising	Total
Value of donated food distributed	\$ 19,970,783	\$ -	\$ -	\$ -	\$ 19,970,783
Cost of food delivered	3,506,521	-	-	-	3,506,521
Salaries	468,979	145,197	226,425	197,015	1,037,616
Payroll taxes	62,753	12,251	19,742	18,104	112,850
Employee benefits	73,044	21,512	27,466	22,049	144,071
Training	1,885	785	1,027	709	4,406
Travel	1,427	119	549	34	2,129
Supplies	60,446	1,766	1,386	1,431	65,029
Printing and publications	490	4,193	527	264,775	269,985
Postage and delivery	664	2,558	996	103,017	107,235
Telephone	9,633	3,928	3,059	3,361	19,981
Advertising	-	630	-	7,677	8,307
Contract services	75,068	61,616	5,333	30,341	172,358
Professional fees	12,109	3,445	28,585	100,819	144,958
Conference and meeting costs	90	-	-	42	132
Agency grants	235,939	12,500	-	-	248,439
Insurance	17,941	2,968	2,117	3,671	26,697
Dues and subscriptions	4,239	387	13,970	12,231	30,827
Utilities	29,592	825	654	1,302	32,373
Equipment purchases	31,416	119	2,075	2,603	36,213
Depreciation	279,113	6,465	8,067	8,932	302,577
Repairs and maintenance	56,778	348	502	737	58,365
Fuel, oil, and gas	46,417	-	-	-	46,417
Interest	14,764	363	1,691	767	17,585
Bank and finance charges	-	-	87	14,336	14,423
Other	7,968	1,848	2,663	5,479	17,958
Total expenses	<u>\$ 24,968,059</u>	<u>\$ 283,823</u>	<u>\$ 346,921</u>	<u>\$ 799,432</u>	<u>\$ 26,398,235</u>
Percentage of total expenses	94.6 %	1.1 %	1.3 %	3.0 %	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, 2020

	Food Distribution	Public Policy	General and Administrative	Fundraising	Total
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
Total expenses	<u>\$ 23,048,153</u>	<u>\$ 212,933</u>	<u>\$ 333,492</u>	<u>\$ 701,790</u>	<u>\$ 24,296,368</u>
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
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 1,149,488	\$ 1,614,010
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	302,577	188,764
(Gain) Loss on disposal of assets	(82,010)	5,604
Unrealized loss (gain) on investments	(200,637)	5,107
Debt and accrued interest forgiveness	(224,963)	-
Changes in operating assets and liabilities		
Receivables	281,290	(206,826)
Inventories	(91,128)	(31,777)
Prepaid expenses	(17,895)	7,810
Accounts payable	(31,888)	254,648
Accrued liabilities	<u>15,366</u>	<u>(19,706)</u>
Net cash provided by operating activities	<u>1,100,200</u>	<u>1,817,634</u>
Cash flows from investing activities		
Purchase of property and equipment	(347,651)	(975,376)
Proceeds from sales of property and equipment	82,000	-
Net purchases of investments and reinvestments	<u>(8,515)</u>	<u>(15,187)</u>
Net cash used in investing activities	<u>(274,166)</u>	<u>(990,563)</u>
Cash flows from financing activities		
Proceeds from long-term debt	-	223,700
Payments on long-term debt	(560,000)	-
Principle payments on capital lease obligation	<u>(2,736)</u>	<u>(2,613)</u>
Net cash provided by financing activities	<u>(562,736)</u>	<u>221,087</u>
Net change in cash	263,298	1,048,158
Cash and cash equivalents - beginning of year	<u>2,185,964</u>	<u>1,137,806</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,449,262</u></u>	<u><u>\$ 2,185,964</u></u>
Non-Cash Investing and Financing Activities		
Debt financed purchase of real property	\$ -	\$ 560,000
Supplemental Cash Flow Information		
Cash paid for interest	\$ 16,322	\$ 471

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, 2021 and 2020

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, 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 2014-09

During the year ended June 30, 2021, MFBN adopted FASB Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* (Topic 606), including the subsequent revisions. Analysis of the various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and there was no prior period effect upon implementation.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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 position 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 of Montana 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, 2021 and 2020

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 \$3,000 and \$1,849 were recorded during the years ended June 30, 2021 and 2020, respectively. Management estimates the allowance for doubtful accounts to be zero at June 30, 2021 and 2020.

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 \$1.79 and \$1.74 per pound as of June 30, 2021 and 2020, 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.

Paycheck Protection Program

During the year ended June 30, 2020, the Organization applied for, and received, loan proceeds under the Small Business Administration's Paycheck Protection Program. These proceeds were recorded as a liability in accordance with ASC 405-20-40-1, under which derecognition of a liability occurs only if it has been extinguished, as of June 30, 2020. During the year ended June 30, 2021, the Organization was granted forgiveness of principle and related interest under the provisions of the loan program. Principle and interest forgiven in the amount of \$224,963 is included in grant revenue in the statement of activity for the year ended June 30, 2021. 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 \$15,020 and \$20,067 for the years ended June 30, 2021 and 2020, 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 \$95,638 and \$26,990 for the years ended June 30 2021 and 2020, 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.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Contributions and Pledges (Continued)

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 if the restrictions expire in the reporting period in which the revenue is recognized.

Revenue and Revenue Recognition

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as unearned revenue in the statement of financial position. The Organization received no advance payments required to be recognized in the statement of financial position as unearned revenue at June 30, 2021 and 2020, respectively.

Partnership food sales, including related shared maintenance and delivery fees, contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. That is, when control of the merchandise transfers to partner agencies. Control of merchandise transfers when the shipped order arrives at the destination.

The Organization recognizes revenue from special event ticket sales at the time of admission. For special events, revenue equal to the fair value of direct benefits to donors and contribution income for the excess received is recorded when the event takes place.

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, because the Organization did not have any unrelated business income during the years ended June 30, 2021 and 2020.

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.

Montana Food Bank Network
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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.

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.

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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:

	2021		2020	
	Basis	Market	Basis	Market
Interest bearing cash	\$ 62,514	\$ 62,515	\$ 52,385	\$ 52,391
Common stock	394,388	579,065	390,439	452,039
Bonds	219,295	224,611	168,850	166,238
Alternative investments	<u>56,019</u>	<u>65,474</u>	<u>56,019</u>	<u>50,572</u>
Total Investments	<u>\$ 732,216</u>	<u>\$ 931,665</u>	<u>\$ 667,693</u>	<u>\$ 721,240</u>

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

	2021	2020
Interest and dividends	\$ 18,398	\$ 22,106
Net gains and losses, realized and unrealized	200,637	(5,107)
Investments fees	<u>(7,767)</u>	<u>(6,642)</u>
Investment income, net	<u>\$ 211,268</u>	<u>\$ 10,357</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, 2021. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2021 and 2020.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2021				
Interest bearing cash	\$ 62,515	\$ 62,515	\$ -	\$ -
Common stock	579,065	579,065	-	-
Bonds	224,611	224,611	-	-
Alternative investments	<u>65,474</u>	<u>65,474</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 931,665</u>	<u>\$ 931,665</u>	<u>\$ -</u>	<u>\$ -</u>
	<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>

4. Grants Receivable

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

	<u>2021</u>	<u>2020</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	5,299	1,553
United States Department of Agriculture		
Emergency Food Assistance Program	<u>115,812</u>	<u>9,589</u>
Total grants receivable	<u>\$ 121,111</u>	<u>\$ 268,821</u>

The balance of grants receivable at June 30, 2021 and 2020 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, 2021 and 2020. The grants are reimbursement based contracts that are conditional upon related expenditures being made.

	<u>2021</u>	<u>2020</u>
Montana State DPHHS		
Award "Emergency Food Assistance Program"	\$ 41,218	\$ 51,730
Award "Supplemental Nutrition Assistance Program"	1,757	5,861
Award "Families First Coronavirus Relief Act"	-	52,986
Award "Trade Mitigation"	<u>-</u>	<u>12,357</u>
Total	<u>\$ 42,975</u>	<u>\$ 122,934</u>

6. Pledges Receivable

The Organization had zero and \$122,787 of pledges receivable at June 30, 2021 and 2020, respectively. The balance of pledges receivable at June 30, 2021 and 2020 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>2021</u>	<u>2020</u>
Land	\$ 1,019,873	\$ 1,019,873
Buildings	1,221,245	1,221,245
Building improvements	393,418	393,418
Machinery and equipment	1,690,450	1,579,561
Computer equipment and software	229,917	255,503
Construction in progress	<u>23,975</u>	<u>-</u>
	4,578,878	4,469,600
Less accumulated depreciation	<u>(1,938,399)</u>	<u>(1,874,195)</u>
Total	<u>\$ 2,640,479</u>	<u>\$ 2,595,405</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$302,577 and \$188,764, 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 \$8,250 and \$5,500 at June 30, 2021 and 2020, respectively. Depreciation expense reported in the statements of functional expense includes \$2,750 for the years ended June 30, 2021 and 2020, for the equipment under capital lease. Interest expense related to the capital lease reported in the statements of functional expense was \$350 and \$471 for the years ended June 30, 2021 and 2020, 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:

2022	\$	2,864
2023		2,998
2024		<u>257</u>
Total future minimum lease payments	\$	<u><u>6,119</u></u>

9. Notes Payable

Total interest expense related to notes payable reported in the statements of functional expense for the years ended June 30, 2021 and 2020 was \$17,235 and zero, respectively.

Notes payable consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Note payable, collateralized by real property, principle due upon maturity, monthly interest payments at 3.50%, maturing on June 2, 2023. This note was paid in full in March of 2021.	\$ -	\$ 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. The Organization met these provisions and forgiveness was granted during the fiscal year ended June 30, 2021.	<u>-</u>	<u>223,700</u>
Total Long-Term Debt	-	783,700
Less: Current Portion	<u>-</u>	<u>-</u>
Total	<u><u>\$ -</u></u>	<u><u>\$ 783,700</u></u>

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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, 2021 and 2020, Montana Food Bank Network made matching contributions of \$28,667 and \$25,233, 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 2021. As of June 30, 2021 and 2020, the line of credit had no outstanding balance.

12. Net Assets Without Donor Restrictions

At June 30, 2021 and 2020, the Organization reported net assets without donor restrictions of \$6,423,491 and \$4,714,006, 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, 2021 and 2020, the amount of operating expenses held in reserve totaled \$1,020,372 and \$925,416, respectively.

13. Net Assets With Donor Restrictions

Restrictions on net assets consist of the following at June 30, 2021 and 2020:

	2021	2020
Public policy and advocacy support	\$ 15,890	\$ -
Food distribution support	90,129	608,937
Backpack program	130,845	27,137
Food capacity	-	38,000
Restricted by time requirements	-	122,787
	<u> </u>	<u> </u>
Total net assets with donor restrictions	<u>\$ 236,864</u>	<u>\$ 796,861</u>

The table above presents the composition of net assets with donor restrictions. As of June 30, 2021 and 2020, \$236,864 and \$674,074, respectively, are restricted by donors as to their use, while zero and \$122,787, respectively, are restricted by donors by the passage of time. Additionally, as of June 30, 2021 and 2020, zero and \$122,787, respectively, are restricted by donors as to their use as well as by the passage of time.

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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,	2021	2020
Cash	\$ 2,449,262	\$ 2,185,964
Receivables	215,837	497,127
Investments	<u>931,665</u>	<u>721,240</u>
	3,596,764	3,404,331
Less: Financial assets unavailable for general expenditures within one year, due to:		
Financial assets with donor restrictions	(236,864)	(796,861)
First Nonprofit unemployment insurance reserve	(15,684)	(14,012)
Amounts set aside for liquidity reserve	<u>(1,020,372)</u>	<u>(925,416)</u>
Financial assets available to meet cash needs for general expenditure	<u>\$ 2,323,844</u>	<u>\$ 1,668,042</u>

15. Subsequent Events

The Organization has evaluated subsequent events through September 14, 2021, the date on which the financial statements were available to be issued and there were no events required to be reported.