

MISSOULA FOOD BANK

AUDITED FINANCIAL STATEMENTS
June 30, 2016 and 2015



MISSOULA FOOD BANK

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**ACCOUNTING
AUDIT
TAX
EMPLOYEE BENEFITS
SPECIALIZED SERVICES**

INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Missoula Food Bank
Missoula, Montana

We have audited the accompanying financial statements of the Missoula Food Bank (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 from 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Missoula Food Bank as of June 30, 2016 and 2015, 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
November 7, 2016



MISSOULA FOOD BANK
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,874,414	\$ 454,673
Pledges receivable - current	652,244	14,234
Other receivables	56,771	55,034
Inventory	67,809	129,466
Prepaid expenses	13,378	7,940
Total current assets	2,664,616	661,347
PROPERTY AND EQUIPMENT, at cost	1,848,769	1,008,113
Less: accumulated depreciation	(401,216)	(372,679)
Net property and equipment	1,447,553	635,434
INVESTMENTS		
Investments	1,171,551	1,357,844
Beneficial interest in assets held by the Montana Community Foundation (MCF)	1,000	1,000
Split-interest agreements invested	32,795	32,510
Total investments	1,205,346	1,391,354
OTHER ASSETS		
Pledges receivable - long term, net of discount	749,422	-
TOTAL ASSETS	\$ 6,066,937	\$ 2,688,135
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 292,188	\$ 32,381
Accrued liabilities	36,920	30,041
Total current liabilities	329,108	62,422
LONG-TERM LIABILITIES		
Split-interest agreements payable, net of discount	264	250
Total liabilities	329,372	62,672
NET ASSETS		
Unrestricted		
Unrestricted - other	1,691,448	1,263,715
Unrestricted - board designated	1,068,578	1,252,551
Total Unrestricted	2,760,026	2,516,266
Temporarily restricted	2,944,261	75,919
Permanently restricted	33,278	33,278
Total net assets	5,737,565	2,625,463
TOTAL LIABILITIES AND NET ASSETS	\$ 6,066,937	\$ 2,688,135

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

MISSOULA FOOD BANK
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted Activities</u>	<u>Temporarily Restricted Activities</u>	<u>Permanently Restricted Activities</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Donated food	\$ 2,516,517	\$ -	\$ -	\$ 2,516,517
Holiday drive	200,756	-	-	200,756
Donations - cash	1,134,589	2,879,187	-	4,013,776
Donated services and supplies	12,506	-	-	12,506
United Way designated dollars	-	13,559	-	13,559
Combined federal campaign	5,564	-	-	5,564
Grants	101,276	51,262	-	152,538
Loss on investments, net	(67,520)	(222)	-	(67,742)
Dividends and interest	56,919	493	-	57,412
Net assets released from restrictions	<u>75,937</u>	<u>(75,937)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>4,036,544</u>	<u>2,868,342</u>	<u>-</u>	<u>6,904,886</u>
EXPENSES				
Program service	3,548,882	-	-	3,548,882
Management and general	198,468	-	-	198,468
Fundraising	<u>45,434</u>	<u>-</u>	<u>-</u>	<u>45,434</u>
Total expenses	<u>3,792,784</u>	<u>-</u>	<u>-</u>	<u>3,792,784</u>
CHANGE IN NET ASSETS	243,760	2,868,342	-	3,112,102
NET ASSETS - beginning of year	<u>2,516,266</u>	<u>75,919</u>	<u>33,278</u>	<u>2,625,463</u>
NET ASSETS - end of year	<u>\$ 2,760,026</u>	<u>\$ 2,944,261</u>	<u>\$ 33,278</u>	<u>\$ 5,737,565</u>

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

MISSOULA FOOD BANK
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted Activities</u>	<u>Temporarily Restricted Activities</u>	<u>Permanently Restricted Activities</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Donated food	\$ 2,161,850	\$ -	\$ -	\$ 2,161,850
Holiday drive	212,918	-	-	212,918
Donations - cash	784,812	9,809	-	794,621
Donated services and supplies	8,863	-	-	8,863
United Way designated dollars	-	14,234	-	14,234
Combined federal campaign	6,529	-	-	6,529
Grants	15,630	51,876	-	67,506
Loss on investments, net	(33,636)	-	-	(33,636)
Dividends and interest	70,613	7	-	70,620
Net assets released from restrictions	85,840	(85,840)	-	-
Total revenue and other support	<u>3,313,419</u>	<u>(9,914)</u>	<u>-</u>	<u>3,303,505</u>
EXPENSES				
Program service	3,068,629	-	-	3,068,629
Management and general	188,632	-	-	188,632
Fundraising	35,204	-	-	35,204
Total expenses	<u>3,292,465</u>	<u>-</u>	<u>-</u>	<u>3,292,465</u>
CHANGE IN NET ASSETS	20,954	(9,914)	-	11,040
NET ASSETS - beginning of year	<u>2,495,312</u>	<u>85,833</u>	<u>33,278</u>	<u>2,614,423</u>
NET ASSETS - end of year	<u>\$ 2,516,266</u>	<u>\$ 75,919</u>	<u>\$ 33,278</u>	<u>\$ 2,625,463</u>

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

MISSOULA FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Service	Management and General	Fund- Raising	Total
EXPENSES				
Donated food given away	\$ 2,578,175	\$ -	\$ -	\$ 2,578,175
Salaries and wages	382,700	73,029	8,114	463,843
Donated services expensed	12,506	-	-	12,506
Purchased food	350,789	-	-	350,789
Employee benefits	16,227	4,760	649	21,636
Insurance	10,258	1,140	-	11,398
Payroll taxes	35,532	6,780	754	43,066
Depreciation	25,683	2,854	-	28,537
Legal and professional	-	27,931	11,971	39,902
Travel	3,901	-	-	3,901
Postage	857	5,143	2,571	8,571
Utilities	19,399	4,850	-	24,249
Fund-raising expenses	-	-	15,270	15,270
Supplies	21,479	5,843	-	27,322
Printing	22,698	-	2,522	25,220
Phone and fax	-	2,271	-	2,271
Equipment expense	3,877	-	-	3,877
Volunteer and public relations	4,086	-	-	4,086
Dues and memberships	2,074	230	-	2,304
Conferences and training	-	3,097	-	3,097
Bank and investment fees	-	17,215	-	17,215
Miscellaneous	3,485	-	-	3,485
Vehicle expense	2,965	329	-	3,294
Advertising	15,521	-	-	15,521
Repairs and maintenance	11,539	-	-	11,539
Taxes city/county	2,718	4,659	388	7,765
Rent	22,363	38,337	3,195	63,895
Charitable contributions	50	-	-	50
Total expenses	<u>\$ 3,548,882</u>	<u>\$ 198,468</u>	<u>\$ 45,434</u>	<u>\$ 3,792,784</u>

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

MISSOULA FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	<u>Program Service</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
EXPENSES				
Donated food given away	\$ 2,176,920	\$ -	\$ -	\$ 2,176,920
Salaries and wages	373,064	62,160	6,907	442,131
Donated services expensed	8,863	-	-	8,863
Purchased food	284,080	-	-	284,080
Employee benefits	37,811	11,091	1,513	50,415
Insurance	11,301	1,256	-	12,557
Payroll taxes	35,697	5,948	661	42,306
Depreciation	25,466	2,830	-	28,296
Legal and professional	-	30,821	13,209	44,030
Travel	2,012	-	-	2,012
Postage	812	4,874	2,437	8,123
Utilities	19,521	4,880	-	24,401
Fund-raising expenses	-	-	4,590	4,590
Supplies	17,495	4,557	-	22,052
Printing	16,693	-	1,855	18,548
Phone and fax	-	3,251	-	3,251
Equipment expense	4,161	-	-	4,161
Volunteer and public relations	3,542	-	-	3,542
Dues and memberships	2,272	252	-	2,524
Conferences and training	-	2,358	-	2,358
Bank and investment fees	-	12,759	-	12,759
Miscellaneous	6,387	-	-	6,387
Vehicle expense	1,289	143	578	2,010
Advertising	3,120	-	-	3,120
Repairs and maintenance	13,286	-	-	13,286
Taxes city/county	2,267	3,887	324	6,478
Rent	21,913	37,565	3,130	62,608
Charitable contributions	657	-	-	657
Total expenses	<u>\$ 3,068,629</u>	<u>\$ 188,632</u>	<u>\$ 35,204</u>	<u>\$ 3,292,465</u>

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

MISSOULA FOOD BANK
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,112,102	\$ 11,040
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	28,537	28,296
Donated securities received	(290,315)	(4,014)
Donated services received	(12,506)	(8,863)
Donated services expensed	12,506	8,863
Loss on investments, net	67,742	33,636
Changes in operating assets and liabilities:		
Pledges receivable	(1,387,432)	-
Other receivables	(1,737)	(23,765)
Inventory	61,657	15,070
Prepaid expenses	(5,438)	4,179
Accounts payable and accrued liabilities	<u>266,700</u>	<u>377</u>
Net cash from operating activities	<u>1,851,816</u>	<u>64,819</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(840,656)	(28,764)
Purchase of land	-	(329,445)
Transfer of investments to cash	719,533	505,838
Net purchases, sales, and reinvestments	<u>(310,952)</u>	<u>(92,983)</u>
Net cash from investing activities	<u>(432,075)</u>	<u>54,646</u>
NET CHANGE IN CASH	1,419,741	119,465
Cash and cash equivalents - beginning of year	<u>454,673</u>	<u>335,208</u>
Cash and cash equivalents - end of year	<u>\$ 1,874,414</u>	<u>\$ 454,673</u>

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

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Missoula Food Bank (the Organization) is a nonprofit organization whose mission is to gather and distribute food to those in need in the Missoula, Montana area. Support for the Missoula Food Bank comes primarily from individual and corporate donors' contributions and various government grants.

Method of Accounting

Missoula Food Bank maintains its records on the accrual basis of accounting with revenues recorded when earned and expenses recorded when the obligation is incurred or the benefits are received.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted - Unrestricted net assets represent resources over which the Organization has unlimited discretionary control to carry out its activities. Grants and donor-restricted contributions received in a fiscal year whose restrictions were met in the same fiscal year are reported as unrestricted revenue. The Organization's primary revenue sources include cost reimbursement grant and program fees.

Temporarily Restricted - Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the Organization or by the passage of time. Temporarily restricted net assets are comprised of pledges receivable and cash with donor-imposed restrictions. Cash on hand restricted for the capital campaign is presented separately from other cash on hand restricted for a specific purpose. Temporarily restricted net assets was \$2,944,261 and \$75,919 at June 30, 2016 and 2015, respectively.

Permanently Restricted - Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained in perpetuity. Permanently restricted net assets was \$33,278 at June 30, 2016 and 2015.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Inventory

Inventory consists of donated and purchased food. Purchased food is stated at cost, and donated food is stated at the approximate wholesale value using Feeding America's national rate, which is estimated at \$1.67 and \$1.70 per pound of donated food for 2016 and 2015, respectively.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land, Building, and Equipment

Land, building and equipment are carried at cost if purchased or fair value if donated. The cost of property and equipment in excess of \$1,000 with a useful life of more than one year is capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. The Organization calculates depreciation of building and equipment on the straight-line basis over the estimated useful lives of the individual assets (5 - 40 years).

Compensated Absences

Employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation at June 30, 2016 and 2015 was \$11,265 and \$7,867, respectively.

Public Support and Revenue

All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use. Expiration of temporary restrictions on net assets are reported as reclassifications between applicable classes of net assets spanning more than one fiscal year. The receipt of temporarily restricted assets where the restriction is met in the same fiscal year is reported as an increase in unrestricted assets.

Contributions, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value.

Concentration Risk

The Organization has a concentration of risk with respect to pledges receivable due to those pledges originating from donors in Missoula, Montana and the surrounding community.

Donated Food and Grocery Products

The Organization reports gifts of donated food and grocery products over which it has control as unrestricted public support and as expense when distributed. The approximate average wholesale value of one pound of donated food was determined to be \$1.67 and \$1.70 for 2016 and 2015, respectively, based upon the estimated wholesale value determined by Feeding America.

Donated Services

Numerous volunteers have donated significant amounts of time to the Organization's operation of the store by stocking shelves, sorting food, interviewing clients, delivering food, and other activities which are critical to the Organization's operations and mission. During the years ended June 30, 2016 and 2015, Missoula Food Bank received 33,785 and 19,619 hours of volunteer time, respectively.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services (continued)

Based on the nature of the service and the amount of time donated, management estimated the value of volunteer services to be approximately \$287,173 and \$166,762 during the years ended June 30, 2016 and 2015, respectively. In accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-605-25-16, the value of these services is not reflected in the financial statements. During the years ended June 30, 2016 and 2015, the Organization received \$12,506 and \$8,863, respectively, in donated goods and services that were recognized in the financial statements.

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.

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 based on specific identification or based on estimates of the expenses incurred. The primary activity groups and their related purposes are summarized as follows:

Program Service - Expenses which are associated with food recovery, storage, and distribution.

Management and General - Expenses which allow the Organization to operate and provide services to clients but are not directly attributable to client services.

Fund-raising - Provides for time and materials related to direct mail fundraising, appeals to donors, and activities designed to create public awareness and support for the Organization's services.

Advertising Costs

Advertising costs are generally charged to operations in the year incurred. Advertising costs for the years ended June 30, 2016 and 2015 were \$15,521 and \$3,120, respectively.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Receivables from the prior year have been reclassified as other receivables to conform to the current year presentation. These changes had no effect on total net assets or changes in net assets.

NOTE B - CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. The Organization maintains cash balances at various financial institutions. At times, balances may be in excess of the FDIC insured limits.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE B - CASH AND CASH EQUIVALENTS (continued)

The composition of cash is as follows at June 30:

	<u>2016</u>	<u>2015</u>
Checking accounts - banks	\$ 1,828,763	\$ 369,553
Savings accounts - banks and credit unions	45,651	43,312
Money market accounts	<u>-</u>	<u>41,808</u>
	<u>\$ 1,874,414</u>	<u>\$ 454,673</u>

NOTE C - RECEIVABLES

Missoula Food Bank considers accounts receivable to be fully collectible; accordingly, management has estimated the allowance for doubtful accounts to be zero at June 30, 2016 and 2015. Uncollectible receivables will be charged to operations when that determination is made. At June 30, 2016 all receivables are expected to be collected in less than one year.

The composition of receivables is as follows at June 30:

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ 5,509	\$ 3,158
Grants receivable	<u>51,262</u>	<u>51,876</u>
	<u>\$ 56,771</u>	<u>\$ 55,034</u>

NOTE D PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 1,416,751	\$ 14,234
Less discount on long-term pledges	<u>(15,085)</u>	<u>-</u>
Net pledges receivable	<u>\$ 1,401,666</u>	<u>\$ 14,234</u>

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE D PLEDGES RECEIVABLE (continued)

Pledges receivable consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 652,244	\$ 14,234
Receivable in one to five years	<u>764,507</u>	<u>-</u>
Total pledges receivable	1,416,751	14,234
Less discount on long-term pledges	<u>(15,085)</u>	<u>-</u>
Net pledges receivable	<u>\$ 1,401,666</u>	<u>\$ 14,234</u>

The discount on pledges receivable was \$15,085 and zero at June 30, 2016 and 2015, respectively. Pledges were discounted to their present value based on the term of the underlying pledge. The discount rate was 0.44% and zero for the year ended June 30, 2016 and 2015, respectively.

During the year ended June 30, 2016, the Organization was named a partial beneficiary of an estate that is in the process of liquidating the underlying assets. The value of those future gifts is dependent on the liquidation of the underlying assets in the estate. The value of the Organization's beneficial interest is based on estimates provided by the trustee and has been discounted consistent with all pledges.

NOTE E - PROPERTY AND EQUIPMENT

The composition of property and equipment is as follows at June 30:

	<u>2016</u>	<u>2015</u>
Vehicles	\$ 62,480	\$ 62,480
Equipment	184,698	170,740
Website and software	6,950	4,100
Building	77,925	77,925
Building improvements	311,798	311,798
Land	25,625	25,625
Relocation construction in-progress	<u>1,179,293</u>	<u>355,445</u>
Property and equipment, at cost	1,848,769	1,008,113
Less: accumulated depreciation	<u>(401,216)</u>	<u>(372,679)</u>
Net property and equipment	<u>\$ 1,447,553</u>	<u>\$ 635,434</u>

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE F - CAPITAL CAMPAIGN AND RELOCATION PROJECT

During the years ended June 30, 2015 and 2016, the Organization embarked on a relocation project to construct a new facility to better meet the needs of the local community. As part of this project, the Organization has launched a capital campaign during the year ended June 30, 2016 to fund the cost of construction and relocation. See Note D for more information on the pledges received and Note P for activities related to the construction and relocation project that occurred after year end.

NOTE G - INVESTMENTS

The Board of Directors has designated the investment accounts for use as operating reserves and as a capital preservation fund. Since the amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets. For the years ended June 30, 2016 and 2015, the operating reserve was \$499,966 and \$434,803 and the capital preservation fund was \$568,612 and \$819,101, respectively.

The Organization intends to maintain at least six months of budgeted operating expenses, including depreciation, plus six months of debt service in operating reserves at any point in time. The capital preservation fund is intended to be available for capital expenditures as they arise. These designated funds are intended to be utilized only when budgeted expenditures cannot otherwise be funded by donations or grants, and use of the reserve must be reviewed and recommended by the Finance Committee and approved by the Board of Directors.

To achieve the objectives above, the Organization has adopted an investment policy that attempts to provide for safety of principle, a reasonable current rate of return, and long-term growth through a balanced and diversified portfolio of fixed income, equities, and other investments including common stocks, bonds, mutual funds, and cash equivalents. The Organization has determined that investments shall be made only into socially responsible funds or equities. Long-term asset allocation targets for the portfolio are determined by the board to facilitate achievement of the long-term investment goals within the established risk parameters measured on a prospective basis. Risk levels are managed to be at or below the volatility level of the market and peer benchmarks as defined by the Organization's investment policy. Investments, at times, may exceed SIPC insured limits.

Investments consist of the following at June 30, 2016 and 2015, respectively:

<u>2016</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and cash equivalents	\$ 257,009	\$ 257,009	\$ -
Certificates of deposit	76,567	76,567	-
Bonds	561,742	549,984	(11,758)
Equities	266,004	320,786	54,782
Other - MCF	<u>1,000</u>	<u>1,000</u>	<u>-</u>
	<u>\$ 1,162,322</u>	<u>\$ 1,205,346</u>	<u>\$ 43,024</u>

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE G - INVESTMENTS (continued)

<u>2015</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and cash equivalents	\$ 175,297	\$ 175,297	\$ -
Certificates of deposit	76,346	76,346	-
Bonds	764,625	754,783	(9,842)
Equities	287,330	383,928	96,598
Other - MCF	<u>1,000</u>	<u>1,000</u>	<u>-</u>
	<u>\$ 1,304,598</u>	<u>\$ 1,391,354</u>	<u>\$ 86,756</u>

The following schedule summarizes investment earnings for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 57,412	\$ 70,620
Net realized and unrealized gains and (losses)	(67,742)	(33,636)
Investment management fees	<u>(13,772)</u>	<u>(6,304)</u>
Net investment income (loss)	<u>\$ (24,102)</u>	<u>\$ 30,680</u>

NOTE H - FAIR VALUE MEASUREMENTS

The Organization has determined the fair value of their investments through the application of FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels are defined as follows:

Level 1 - observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 - observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE H - FAIR VALUE MEASUREMENTS (continued)

Level 3 - inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets at the measurement date. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. There were no changes in the valuation techniques during the current year.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Cash and equivalents	\$ 257,009	\$ 257,009	\$ -	\$ -
Certificates of deposit	76,567	76,567	-	-
Bonds	549,984	549,984	-	-
Equities	320,786	320,786	-	-
Other - MCF	1,000	-	1,000	-
	<u>\$ 1,205,346</u>	<u>\$ 1,204,346</u>	<u>\$ 1,000</u>	<u>\$ -</u>

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015				
Cash and equivalents	\$ 175,297	\$ 175,297	\$ -	\$ -
Certificates of deposit	76,346	76,346	-	-
Bonds	754,783	754,783	-	-
Equities	383,928	383,928	-	-
Other - MCF	1,000	-	1,000	-
	<u>\$ 1,391,354</u>	<u>\$ 1,390,354</u>	<u>\$ 1,000</u>	<u>\$ -</u>

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE I - BENEFICIAL INTEREST IN ASSETS HELD AT MCF

The Organization is the designated beneficiary for two endowment funds held at the Montana Community Foundation (MCF). The donors granted the variance power to the MCF, except for \$1,000 of the account, therefore, in accordance with FASB ASC 958-605-25-25, only \$1,000 is included in the Missoula Food Bank's statements of financial position. Variance power gives the MCF complete control and ownership of the asset. Consequently, the asset is included in the MCF's statement of financial position. The earnings on the endowment fund held at the MCF are paid to the beneficiary, namely the Missoula Food Bank, at the discretion of the MCF's Board of Directors. Earnings distributed by the MCF to the Missoula Food Bank are recorded as contributions in the year of receipt.

The total amount of the endowment account that is not included in the Missoula Food Bank's statements of financial position is \$36,708 and \$35,530 at June 30, 2016 and 2015, respectively.

NOTE J - SPLIT-INTEREST AGREEMENTS

Charitable gift annuities require periodic payment of a fixed sum to designated beneficiaries and terminates upon the death of the designated beneficiaries. Since the Organizations are the administrator, a liability for each gift annuity is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the annuity are then available for use by the Organizations in accordance with the donors' intent.

The Organization has two split-interest agreements outstanding during the years ended June 30, 2016 and 2015, summarized as follows:

Fiscal Year Gift Annuity Was Signed	Total Gift Annuity	Annual Annuity Payment	Annuity Payment Start Date	Limited Durable Power of Attorney Effective Date
June 30, 2014	\$ 2,500	\$ 125	December 31, 2045	Not Applicable
June 30, 2014	\$ 30,000	\$ 750	January 1, 2021	January 9, 2019

The Organization uses actuarial assumptions defined by IRS Publication 1457 and the applicable federal rate (AFR) at the time of donation to determine both the contribution and liability amounts to be recognized. The AFR discount rate was 5% for the Organization's two charitable gift annuities held at June 30, 2016 and 2015. The asset values for the charitable gift annuities are included in the value of investments on the statement of financial position. At June 30, the fair value and cost basis of the charitable gift annuity investments are shown in Note H.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE J - SPLIT-INTEREST AGREEMENTS (continued)

Liability obligations to beneficiaries under charitable gift annuity agreements at June 30, 2016 and 2015 are all considered long-term obligations as the first contractual payment is due December 31, 2045. Total long-term planned giving liabilities at June 30, 2016 were \$750 net of a discount of \$486. Total long-term planned giving liabilities at June 30, 2015 were \$750 net of a discount of \$500.

NOTE K - ENDOWED FUNDS

Endowed funds held by the Organization are related to the split-interest agreements held at year end, which are more fully described at Note J. The underlying gift from the split-interest agreements are permanently restricted by the donors. As required by accounting principles generally accepted in the United States of America, net assets associated with endowed funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (“MUPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowed funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations made to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowed fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MUPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowed funds may fall below the level required by the donor or MUPMIFA to be retained as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. The Organization had a donor restricted fund deficiency of zero and \$18 at June 30, 2016 and 2015, respectively.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE K - ENDOWED FUNDS (continued)

Changes in endowment net assets are as follows for the years ended June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowed net assets, June 30, 2014	\$ (11)	\$ -	\$ 33,278	\$ 33,267
Investment income	-	7	-	7
Amortization of discount on split- interest agreements	-	(14)	-	(14)
Reclassification adjustment	<u>(7)</u>	<u>7</u>	<u>-</u>	<u>-</u>
Endowed net assets, June 30, 2015	(18)	-	33,278	33,260
Investment income	-	493	-	493
Net appreciation	<u>-</u>	<u>140</u>	<u>-</u>	<u>140</u>
Amortization of discount on split- interest agreements	-	(14)	-	(14)
Fees and other expenses	-	(348)	-	(348)
Reclassification adjustment	<u>18</u>	<u>(18)</u>	<u>-</u>	<u>-</u>
Endowed net assets, June 30, 2016	<u><u>\$ -</u></u>	<u><u>\$ 253</u></u>	<u><u>\$ 33,278</u></u>	<u><u>\$ 33,531</u></u>

NOTE L - LINE OF CREDIT

The Organization has a \$600,000 line of credit available to be drawn through UBS, which does not have a renewal date and remains available until cancelled by the Organization or UBS. The line of credit has no associated fees and a variable interest rate based on the 30 day Libor plus a fixed spread of 337.5 basis points (3.84% at June 30, 2016). No amounts have been drawn on this line of credit during the years ended June 30, 2016 and 2015.

NOTE M - RESTRICTED NET ASSETS

Restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Cash on-hand; restricted by purpose	\$ 1,485,571	\$ 6,651
Pledges and funds receivable; restricted by time	1,458,437	69,268
Endowment earnings; restricted by time	<u>253</u>	<u>-</u>
Temporarily restricted net assets	<u><u>\$ 2,944,261</u></u>	<u><u>\$ 75,919</u></u>
Permanently restricted	<u><u>\$ 33,278</u></u>	<u><u>\$ 33,278</u></u>

MISSOULA FOOD BANK
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NOTE N - RETIREMENT PLAN

The Organization sponsors a Simplified Employee Pension (SEP) for employees meeting certain eligibility requirements, which include attaining the age of 21 and completing two years of service with the Organization. Contributions are determined on an annual basis by the Board of Directors as a specified percentage of participating employees' compensation. The Organization's contributions for the years ended June 30, 2016 and 2015, were \$17,500 and \$12,000, respectively.

NOTE O - LEASE OBLIGATION

The Organization entered into a lease agreement in May 2002 to lease an office building under an operating lease with possible annual increases based upon the Department of Labor's All-Cities Consumer Price Index not to exceed 4% per annum. As of June 30, 2016 the rent payment was \$3,291 per month. The lease terminates April 2017, with three optional five-year term renewals available with the same terms. Total rent expense related to the lease was \$39,695 and \$38,866 for the years ended June 30, 2016 and 2015, respectively. Total minimum operating lease obligations through the end of the current lease term as of June 30, 2016 are \$32,910:

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 7, 2016, the date on which the financial statements were available to be issued.

Loans Payable

During the year ended June 30, 2016, the Organization launched a capital campaign to fund the construction of a new facility to better meet the needs of the Organization and the local community. The majority of the construction costs will be funded through the collection of outstanding pledges receivable. However, the Organization has incurred the following loans to pay construction costs while pledges are being collected.

Subsequent to year end, the Organization has obtained two loans from a local bank with a total amount available of \$900,000 and \$1,143,500. The \$900,000 loan has a term of 21 years with interest-only payments for 12 months and a variable interest rate of 3.5% that will be adjusted every five years. The \$1,143,500 loan has a term of five years with interest-only payments for the duration of the loan and a fixed interest rate of 3.5%. Both loans are collateralized by real property. Furthermore, it is the intent of the Organization to pay-off both of these loans upon the collection of the outstanding pledges receivable.

MISSOULA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE P - SUBSEQUENT EVENTS (continued)

Property Transactions

In July 2016, the Organization entered into a buy-sell agreement to sell the property located at 219 South 3rd Street West in Missoula, Montana. The gross sales price is \$675,000 and, among other factors, is contingent on the Organization's receipt of a Certificate of Occupancy for the new facility being constructed at 1720 Wyoming Street in Missoula, Montana. Construction is expected to be completed and the Certificate of Occupancy is expected to be received during the year ended June 30, 2017.

In July 2016, the Organization entered into a buy-sell agreement to purchase a small parcel of property adjacent to the location of the new facility at 1720 Wyoming Street in Missoula, Montana. The gross sales price is \$249,000 with a scheduled closing date in January 2017 and is subject to several contingencies. It is the intent of the Organization to explore collaborative projects which may include transferring or assigning the buy-sell agreement to another nonprofit organization that can offer services providing a mutual benefit from close proximity to the new Missoula Food Bank location.