

MISSOULA FOOD BANK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2017



MISSOULA FOOD BANK

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Missoula Food Bank
Missoula, Montana

We have audited the accompanying consolidated financial statements of Missoula Food Bank (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated 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.

Board of Directors and Management
Missoula Food Bank

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Missoula Food Bank as of June 30, 2017, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 23 - 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

Missoula, Montana
December 18, 2017

MISSOULA FOOD BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,058,466
Pledges receivable - current	544,974
Other receivables	618,652
Inventory	118,603
Prepaid expenses	14,270
Total current assets	<u>2,354,965</u>
 PROPERTY AND EQUIPMENT, at cost	
Less: accumulated depreciation	6,156,252
Net property and equipment	<u>(115,057)</u>
 INVESTMENTS	
Investments	1,256,804
Beneficial interest in assets held by the Montana Community Foundation (MCF)	1,000
Split-interest agreements invested	35,492
Total investments	<u>1,293,296</u>
 OTHER ASSETS	
Pledges receivable - long term, net of discount	330,317
Note receivable	4,472,000
Total other assets	<u>4,802,317</u>
TOTAL ASSETS	<u><u>\$ 14,491,773</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 212,902
Accrued liabilities	46,855
Total current liabilities	<u>259,757</u>
 LONG-TERM LIABILITIES	
Split-interest agreements payable, net of discount	278
Notes payable	7,243,621
Total long-term liabilities	<u>7,243,899</u>
Total liabilities	<u>7,503,656</u>
 NET ASSETS	
Unrestricted	
Unrestricted - other	3,780,259
Unrestricted - board designated	1,119,950
Total Unrestricted	<u>4,900,209</u>
Temporarily restricted	2,004,530
Permanently restricted	83,378
Total net assets	<u>6,988,117</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 14,491,773</u></u>

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

MISSOULA FOOD BANK
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	<u>Unrestricted Activities</u>	<u>Temporarily Restricted Activities</u>	<u>Permanently Restricted Activities</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Donated food	\$ 2,534,936	\$ -	\$ -	\$ 2,534,936
Holiday drive	235,573	-	-	235,573
Donations - cash	1,139,677	-	50,100	1,189,777
Donated services and supplies	11,122	-	-	11,122
United Way designated dollars	-	12,853	-	12,853
Grants	254,746	540,770	-	795,516
Gain on investments, net	40,656	1,306	-	41,962
Dividends and interest	42,952	730	-	43,682
Gain on sale of property	384,337	-	-	384,337
Net assets released from restrictions	<u>1,495,390</u>	<u>(1,495,390)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>6,139,389</u>	<u>(939,731)</u>	<u>50,100</u>	<u>5,249,758</u>
EXPENSES				
Program service	3,658,433	-	-	3,658,433
Management and general	272,116	-	-	272,116
Fundraising	<u>68,657</u>	<u>-</u>	<u>-</u>	<u>68,657</u>
Total expenses	<u>3,999,206</u>	<u>-</u>	<u>-</u>	<u>3,999,206</u>
CHANGE IN NET ASSETS	2,140,183	(939,731)	50,100	1,250,552
NET ASSETS - beginning of year	<u>2,760,026</u>	<u>2,944,261</u>	<u>33,278</u>	<u>5,737,565</u>
NET ASSETS - end of year	<u>\$ 4,900,209</u>	<u>\$ 2,004,530</u>	<u>\$ 83,378</u>	<u>\$ 6,988,117</u>

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

MISSOULA FOOD BANK
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	<u>Program Service</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
EXPENSES				
Donated food given away	\$ 2,484,142	\$ -	\$ -	\$ 2,484,142
Salaries and wages	415,730	90,985	10,110	516,825
Donated services expensed	11,122	-	-	11,122
Purchased food	453,899	-	-	453,899
Employee benefits	15,718	4,611	628	20,957
Insurance	10,224	1,136	-	11,360
Payroll taxes	39,467	8,638	959	49,064
Depreciation	55,060	2,374	-	57,434
Legal and professional	-	79,454	20,877	100,331
Travel	4,356	-	-	4,356
Postage	-	2,704	6,308	9,012
Utilities	25,781	5,752	-	31,533
Fund-raising expenses	-	-	14,976	14,976
Supplies	26,766	8,011	-	34,777
Printing	19,542	-	2,171	21,713
Phone and fax	-	3,593	-	3,593
Equipment expense	14,899	-	-	14,899
Volunteer and public relations	7,111	-	-	7,111
Dues and memberships	1,171	130	-	1,301
Conferences and training	-	2,660	-	2,660
Bank and investment fees	-	15,502	-	15,502
Miscellaneous	6,658	-	-	6,658
Vehicle expense	2,964	329	-	3,293
Advertising	2,925	-	8,776	11,701
Repairs and maintenance	15,969	-	-	15,969
Taxes city/county	1,195	2,048	170	3,413
Rent	24,730	42,395	3,533	70,658
Interest	19,004	1,794	149	20,947
Total expenses	<u>\$ 3,658,433</u>	<u>\$ 272,116</u>	<u>\$ 68,657</u>	<u>\$ 3,999,206</u>

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

MISSOULA FOOD BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,250,552
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	57,434
Amortization of discounts	(8,063)
Donated securities received	(69,581)
Gain on investments, net	(41,962)
Gain on sale of property	(384,337)
Changes in operating assets and liabilities:	
Pledges receivable	534,452
Other receivables	(561,881)
Inventory	(50,794)
Prepaid expenses	(892)
Accounts payable and accrued liabilities	(69,351)
Permanently restricted contributions	<u>(50,100)</u>
Net cash from operating activities	<u>605,477</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(4,697,739)
Proceeds from sale of asset	631,000
Transfer of investments to cash	(82,827)
Net purchases, sales, and reinvestments	<u>106,420</u>
Net cash from investing activities	<u>(4,043,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan proceeds	2,713,792
Payments on long term debt	(142,171)
Permanently restricted contributions	<u>50,100</u>
Net cash from financing activities	<u>2,621,721</u>
NET CHANGE IN CASH	(815,948)
Cash and cash equivalents - beginning of year	<u>1,874,414</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,058,466</u></u>
NON-CASH INVESTING AND FINANCING ACTIVITIES	
Financing purchase of land through note payable	\$ 200,000
Loan receivable from related party (see Note E)	4,472,000
Loan payable to related party (see Note M)	4,472,000
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	\$ 20,947

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

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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.

Missoula Food Bank QALICB (the QALICB) is a nonprofit public benefit corporation incorporated under the laws of the State of Montana in July 2016, for the exclusive benefit of Missoula Food Bank. The QALICB's purpose is to hold title to property, complete construction of the Missoula Food Bank location at 1720 Wyoming Street in Missoula, Montana, and lease said property back to Missoula Food Bank. The property is operated in such a way that it qualifies as a Qualified Active Low-Income Community Business under the definition of the New Markets Tax Credit (NMTC) Program under Internal Revenue Code (IRC) Section 45(d). The QALICB's board consists of five members; two of which are current members of the Missoula Food Bank board of directors. The activities of the QALICB are solely related to leasing property to Missoula Food Bank.

Basis of Consolidation

The accompanying financial statements are presented on a consolidated basis. The financial statements have been consolidated pursuant to the guidance outlined in Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-810-25-8. In accordance with ASC 958-810-25-8, substantially all of the activities of the QALICB involve assets that are to be leased to a single lessee, Missoula Food Bank. In addition, the expected substantive residual risks and substantially all of the residual rewards of the leased assets and the obligation imposed by the underlying debt of the QALICB reside directly or indirectly with Missoula Food Bank. Finally, the owners of record of the QALICB have not made an initial substantive residual equity capital investment that is at risk during the entire lease term. All significant inter-entity accounts and balances are eliminated upon consolidation.

Method of Accounting

The Organization 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.

Classification of Net Assets

The financial statement presentation follows the recommendations of 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.

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 were \$2,004,530 at June 30, 2017.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 were \$83,378 at June 30, 2017.

Income Taxes

The Missoula Food Bank and Missoula Food Bank QALICB are 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 \$1.72 per pound of donated food for 2017.

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, 2017 was \$11,712.

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.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$1.72 for 2017 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 missions. During the years ended June 30, 2017, Missoula Food Bank received 29,112 hours of volunteer time.

Based on the nature of the service and the amount of time donated, management estimated the value of volunteer services to be approximately \$247,452 during the year ended June 30, 2017. In accordance with FASB ASC 958-605-25-16, the value of these services is not reflected in the financial statements. During the year ended June 30, 2017, the Organization received \$11,122 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, and appeals to donors.

Advertising Costs

Advertising costs are generally charged to operations in the year incurred. Advertising costs for the year ended June 30, 2017 was \$11,701.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE B - CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an original 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.

The composition of cash is as follows at June 30, 2017:

Checking accounts - banks	\$ 991,124
Savings accounts - banks and credit unions	<u>67,342</u>
Total	<u><u>\$ 1,058,466</u></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, 2017. Uncollectible receivables will be charged to operations when that determination is made. At June 30, 2017 all accounts receivables are expected to be collected in less than one year.

The composition of accounts receivable is as follows at June 30, 2017:

Accounts receivable	\$ 13,909
Grants receivable	<u>604,743</u>
Total	<u><u>\$ 618,652</u></u>

NOTE D - PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30, 2017:

Pledges receivable	\$ 882,299
Less discount on long-term pledges	<u>(7,008)</u>
Net pledges receivable	<u><u>\$ 875,291</u></u>

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE D - PLEDGES RECEIVABLE (continued)

Pledges receivable consisted of the following as of June 30, 2017:

Receivable in less than one year	\$ 544,974
Receivable in one to five years	<u>337,325</u>
Total pledges receivable	882,299
Less discount on long-term pledges	<u>(7,008)</u>
Net pledges receivable	<u><u>\$ 875,291</u></u>

The discount on pledges receivable was \$7,008 at June 30, 2017. Pledges were discounted to their present value based on the term of the underlying pledge. The discount rate was 0.47% for the year ended June 30, 2017.

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 - NOTE RECEIVABLE

During the year ended June 30, 2017, Missoula Food Bank entered into a note agreement in the amount of \$4,472,000 with MFB Investment Fund, LLC. The note is receivable on demand if requested, but will remain on the repayment schedule described herein if no demand is made. The note bears interest at 1.046% with quarterly interest payments due until March 2024. Afterwards, quarterly principal and interest payments are due sufficient to pay the loan in full by December 2040. See Note P for more information.

NOTE F - PROPERTY AND EQUIPMENT

During the year ended June 30, 2017, the Organization capitalized interest during the period of construction in the amount of \$26,156. The composition of property and equipment is as follows at June 30, 2017:

Vehicles	\$ 62,480
Equipment	273,951
Website and software	6,950
Building	5,274,731
Land	<u>538,140</u>
Property and equipment, at cost	6,156,252
Less: accumulated depreciation	<u>(115,057)</u>
Net property and equipment	<u><u>\$ 6,041,195</u></u>

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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 year ended June 30, 2017, the operating reserve was \$250,236 and the capital preservation fund was \$869,714.

It is the Organization's intent 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 of directors 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, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and cash equivalents	\$ 338,973	\$ 338,973	\$ -
Certificates of deposit	76,793	76,793	-
Bonds	516,034	504,263	(11,771)
Equities	281,214	372,267	91,053
Other - MCF	<u>1,000</u>	<u>1,000</u>	<u>-</u>
	<u>\$ 1,214,014</u>	<u>\$ 1,293,296</u>	<u>\$ 79,282</u>

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE G - INVESTMENTS (continued)

The following schedule summarizes investment earnings for the year ended June 30, 2017:

Dividends and interest	\$ 43,682
Net realized and unrealized gains and (losses)	41,962
Investment management fees	<u>(9,803)</u>
Net investment income (loss), net	<u>\$ 75,841</u>

NOTE H - FAIR VALUE MEASUREMENTS

The Organization has determined the fair value of 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.

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.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE H - FAIR VALUE MEASUREMENTS (continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents	\$ 338,973	\$ 338,973	\$ -	\$ -
Certificates of deposit	76,793	76,793	-	-
Bonds	504,263	504,263	-	-
Equities	372,267	372,267	-	-
Other - MCF	1,000	-	1,000	-
	<u>\$ 1,293,296</u>	<u>\$ 1,292,296</u>	<u>\$ 1,000</u>	<u>\$ -</u>

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 statement of financial position is \$42,944 at June 30, 2017.

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 Organization is 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 Organization in accordance with the donors' intent.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE J - SPLIT-INTEREST AGREEMENTS (continued)

The Organization has two split-interest agreements outstanding during the year ended June 30, 2017, 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, 2017. The asset values for the charitable gift annuities are included in the value of investments on the statement of financial position. At June 30, 2017 the fair value and cost basis of the charitable gift annuity investments are shown in Note H.

Liability obligations to beneficiaries under charitable gift annuity agreements at June 30, 2017 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, 2017 were \$750 net of a discount of \$472.

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 Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 UPMIFA.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE K - ENDOWED FUNDS (continued)

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 UPMIFA 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 did not have any such deficiencies at June 30, 2017.

Changes in endowment net assets are as follows for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowed net assets, June 30, 2016	-	253	33,278	33,531
Investment return				
Investment income	-	730	-	730
Net appreciation	-	2,310	-	2,310
Total investment return	-	3,040	-	3,040
Contributions	-	-	50,100	50,100
Amortization of discount on split- interest agreements	-	(14)	-	(14)
Fees and other expenses	-	(990)	-	(990)
Endowed net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 2,289</u>	<u>\$ 83,378</u>	<u>\$ 85,667</u>

NOTE L - RETIREMENT PLAN

The Organization is the sponsor of a Simplified Employee Pension (SEP) plan for employees meeting certain eligibility requirements, which include attaining the age of 21 and completing two years of service. 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 year ended June 30, 2017, were \$17,500.

NOTE M - LINE OF CREDIT AND NOTES PAYABLE

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 (4.60% at June 30, 2017). No amounts have been drawn on this line of credit during the year ended June 30, 2017.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE M - LINE OF CREDIT AND NOTES PAYABLE (continued)

A summary of the Organization's loans outstanding at June 30, 2017 follows:

Four related loans with balances from \$20,000-\$65,000 and interest rates ranging from 2.0%-3.5%. All loans are secured by land with a maturity of July 2018, including principal and accrued interest. \$ 200,000

Loan with fixed interest at 3.50%, secured by pledges receivable and real property. Monthly interest only payments for 60 months until September 2021 upon which accrued interest and remaining principal are due. 1,001,329

Loan with fixed interest at 0.935%, secured by real property. Quarterly interest only payments until June 2024. Afterwards, quarterly interest and principal payments sufficient to pay off principal and interest based on a 273 month amortization schedule. 1,570,292

Loan from MFB SUB CDE, LLC with interest at 1.036% and collateralized in first lien position on the QALICB's leasehold interest in the building at 1720 Wyoming Street in Missoula, Montana. Quarterly interest only payments until June 2024 and quarterly interest and principal payments thereafter sufficient to pay off principal and interest by December 2040. 4,472,000

Total notes payable \$ 7,243,621

A schedule of future minimum loan payments is as follows as of June 30:

2018	\$	-	
2019		200,000	
2020		-	
2021		1,001,329	
2022		-	
Thereafter		<u>6,042,292</u>	
Total	\$	<u>7,243,621</u>	

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE N - RESTRICTED NET ASSETS

Restricted net assets consist of the following at June 30, 2017:

Cash on-hand; restricted by purpose	\$ 508,298
Pledges and funds receivable; restricted by time	1,493,943
Endowment earnings; restricted by time	<u>2,289</u>
Temporarily restricted net assets	<u>\$ 2,004,530</u>
Permanently restricted - endowment	<u>\$ 83,378</u>

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. During the year ended June 30, 2017, the rent payment was \$3,291 per month. The lease terminated in May 2017. Total rent expense related to the lease was \$36,499 for the year ended June 30, 2017.

NOTE P - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, Missoula Food Bank and Missoula Food Bank QALICB entered into transactions to finance and develop the construction of a new facility at 1720 Wyoming Street in Missoula, Montana (the Project). The Project was partially financed through the use of the New Markets Tax Credit Program under IRC Section 45(d) and involved offsetting transactions with MFB SUB CDE, LLC and MFB Investment Fund, LLC. The note receivable between Missoula Food Bank, Inc. and MFB Investment Fund, LLC is more fully described at Note E. The note payable between the Missoula Food Bank QALICB and MFB SUB CDE, LLC is more fully described at Note M.

The Managing Member of the MFB SUB CDE, LLC, with a 0.01% ownership interest, is Montana Idaho Community Development Corporation. The Investor Member of the MFB SUB CDE, LLC, with a 99.99% ownership interest, is MFB Investment Fund, LLC. The QALICB received its initial loan funding from MFB SUB CDE, LLC, whose funding was received through transactions involving Missoula Food Bank, Inc. and MFB Investment Fund, LLC, whose sole member is First Security Bank, a Division of Glacier Bank. All of these entities are considered related parties for the purposes of facilitating the financing and development of the Project.

MISSOULA FOOD BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE P - RELATED PARTY TRANSACTIONS (continued)

All rental property owned by the QALICB is leased to Missoula Food Bank under an operating lease that expires in February 2042. Rental revenue for the year ended June 30, 2017 amounted to \$12,000. The following is a summary of minimum future rents to be received:

Year ending June 30,	
2018	\$ 48,000
2019	60,000
2020	60,000
2021	60,000
2022	60,000
Thereafter	<u>5,992,500</u>
Total	<u>\$ 6,280,500</u>

NOTE Q - GUARANTEES

As part of the financing arrangements, Missoula Food Bank, Inc. and the Missoula Food Bank QALICB have provided certain guarantees to MFB SUB CDE, LLC and MFB Investment Fund, LLC. The guarantees are as follows:

Tax Credit Delivery and Recapture Guarantees

Pursuant to the Unconditional Guaranty Agreement, the Missoula Food Bank QALICB and Missoula Food Bank, Inc. have agreed to guarantee against loss or recapture of NMTC arising from failure to comply with IRC and treasury regulations related to the NMTC program. This guarantee will be up to the full amount of any recapture and/or lost credits, including interest and penalties thereon.

Completion Guarantee

Pursuant to the Guaranty Agreement, Missoula Food Bank, Inc. agreed to guarantee lien-free completion of the construction of the Missoula Food Bank building at 1720 Wyoming Street in Missoula, Montana.

NOTE R - SUBSEQUENT EVENTS

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

SUPPLEMENTARY INFORMATION

MISSOULA FOOD BANK
MISSOULA FOOD BANK QALICB
SCHEDULE 1 - CONSOLIDATING STATEMENTS OF ASSETS AND LIABILITIES
JUNE 30, 2017

	MFB	QALICB	ELIMINATING ENTRIES	TOTAL
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 461,792	\$ 596,674	\$ -	\$ 1,058,466
Pledges receivable - current	544,974	-	-	544,974
Other receivables	618,652	12,000	(12,000)	618,652
Inventory	118,603	-	-	118,603
Prepaid expenses	14,270	-	-	14,270
Total current assets	<u>1,758,291</u>	<u>608,674</u>	<u>(12,000)</u>	<u>2,354,965</u>
PROPERTY AND EQUIPMENT, at cost	356,114	5,800,138	-	6,156,252
Less: accumulated depreciation	<u>(81,367)</u>	<u>(33,690)</u>	-	<u>(115,057)</u>
Net property and equipment	<u>274,747</u>	<u>5,766,448</u>	-	<u>6,041,195</u>
INVESTMENTS				
Investments	1,256,804	-	-	1,256,804
Beneficial interest in assets held by the Montana Community Foundation (MCF)	1,000	-	-	1,000
Split-interest agreements invested	<u>35,492</u>	-	-	<u>35,492</u>
Total investments	<u>1,293,296</u>	-	-	<u>1,293,296</u>
OTHER ASSETS				
Pledges receivable - long term, net of discount	330,317	-	-	330,317
Investment in QALICB	290,971	-	(290,971)	-
Other note receivable	<u>4,472,000</u>	-	-	<u>4,472,000</u>
Total other assets	<u>5,093,288</u>	-	<u>(290,971)</u>	<u>4,802,317</u>
TOTAL ASSETS	<u>\$ 8,419,622</u>	<u>\$ 6,375,122</u>	<u>\$ (302,971)</u>	<u>\$ 14,491,773</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 97,089	\$ 127,813	\$ (12,000)	\$ 212,902
Accrued liabilities	46,855	-	-	46,855
Total current liabilities	<u>143,944</u>	<u>127,813</u>	<u>(12,000)</u>	<u>259,757</u>
LONG-TERM LIABILITIES				
Split-interest agreements payable, net of discount	278	-	-	278
Notes payable, net of current portion	<u>1,201,329</u>	<u>6,042,292</u>	-	<u>7,243,621</u>
Total long-term liabilities	<u>1,201,607</u>	<u>6,042,292</u>	-	<u>7,243,899</u>
Total liabilities	<u>1,345,551</u>	<u>6,170,105</u>	<u>(12,000)</u>	<u>7,503,656</u>
NET ASSETS				
Unrestricted				
Unrestricted - other	3,891,217	180,013	(290,971)	3,780,259
Unrestricted - board designated	<u>1,119,950</u>	-	-	<u>1,119,950</u>
Total Unrestricted	5,011,167	180,013	(290,971)	4,900,209
Temporarily restricted	1,979,526	25,004	-	2,004,530
Permanently restricted	<u>83,378</u>	-	-	<u>83,378</u>
Total net assets	<u>7,074,071</u>	<u>205,017</u>	<u>(290,971)</u>	<u>6,988,117</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,419,622</u>	<u>\$ 6,375,122</u>	<u>\$ (302,971)</u>	<u>\$ 14,491,773</u>

MISSOULA FOOD BANK
MISSOULA FOOD BANK QALICB
SCHEDULE 2 - CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>MFB</u>	<u>QALICB</u>	<u>ELIMINATING ENTRIES</u>	<u>TOTAL</u>
REVENUE AND OTHER SUPPORT				
Donated food	\$ 2,534,936	\$ -	\$ -	\$ 2,534,936
Holiday drive	235,573	-	-	235,573
Donations - cash	1,189,777	-	-	1,189,777
Rental income	-	12,000	(12,000)	-
Donated services and supplies	11,122	-	-	11,122
United Way designated dollars	12,853	-	-	12,853
Grants	795,516	-	-	795,516
Loss on investments, net	41,962	-	-	41,962
Dividends and interest	43,678	4	-	43,682
Gain on sale of property	<u>384,337</u>	<u>-</u>	<u>-</u>	<u>384,337</u>
Total revenue and other support	<u>5,249,754</u>	<u>12,004</u>	<u>(12,000)</u>	<u>5,249,758</u>
EXPENSES				
Program service	3,604,672	65,761	(12,000)	3,658,433
Management and general	239,919	32,197	-	272,116
Fundraising	<u>68,657</u>	<u>-</u>	<u>-</u>	<u>68,657</u>
Total expenses	<u>3,913,248</u>	<u>97,958</u>	<u>(12,000)</u>	<u>3,999,206</u>
CHANGE IN NET ASSETS	<u>\$ 1,336,506</u>	<u>\$ (85,954)</u>	<u>\$ -</u>	<u>\$ 1,250,552</u>