



FLATHEAD FOOD BANK, INC.
INDEPENDENT AUDITOR'S REPORT and
FINANCIAL STATEMENTS
December 31, 2018

Final Draft

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Final Draft



INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Flathead Food Bank, Inc.
Kalispell, Montana

We have audited the accompanying financial statements of the Flathead Food Bank, Inc., a nonprofit organization, which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 auditor's 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 Flathead Food Bank, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Missoula, Montana
_____, 2019

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FINANCIAL STATEMENTS

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FLATHEAD FOOD BANK, INC.
STATEMENT OF FINANCIAL POSITION
As of December 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents - general	\$ 361,819
Inventory	<u>366,857</u>

TOTAL CURRENT ASSETS	<u>728,676</u>
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PROPERTY AND EQUIPMENT, NET	<u>56,364</u>
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OTHER ASSETS

Cash and cash equivalents - restricted	39,761
Beneficial interest in assets held by others	<u>8,051</u>

TOTAL OTHER ASSETS	<u>47,812</u>
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TOTAL ASSETS	<u><u>\$ 832,852</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 9,412
Accrued liabilities	<u>6,405</u>

TOTAL CURRENT LIABILITIES	15,817
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TOTAL LIABILITIES	<u>15,817</u>
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NET ASSETS

Without donor restrictions	769,223
With donor restrictions	<u>47,812</u>

TOTAL NET ASSETS	<u>817,035</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 832,852</u></u>
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The notes to the financial statements are an integral part of this statement.

FLATHEAD FOOD BANK, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donated food	\$ 1,782,233	\$ -	\$ 1,782,233
Contributions and grants	470,033	2,600	472,633
United Way contributions	6,376	-	6,376
Fundraising events	49,983	-	49,983
CSFP program administration	40,526	-	40,526
Thrift store revenue	246,346	-	246,346
Gain on disposal of assets	6,000	-	6,000
Interest and dividend income	298	442	740
Unrealized loss - agency funds	-	(176)	(176)
Less: investment fees - agency funds	-	(250)	(250)
TOTAL REVENUE AND SUPPORT	<u>2,601,795</u>	<u>2,616</u>	<u>2,604,411</u>
Net assets released from restriction	-	-	-
Total	<u>2,601,795</u>	<u>2,616</u>	<u>2,604,411</u>
EXPENSES			
Program services	2,376,013	-	2,376,013
Management and general	59,121	-	59,121
Fundraising	71,958	-	71,958
TOTAL EXPENSES	<u>2,507,092</u>	<u>-</u>	<u>2,507,092</u>
CHANGE IN NET ASSETS	94,703	2,616	97,319
NET ASSETS			
Beginning of year	<u>674,520</u>	<u>45,196</u>	<u>719,716</u>
End of year	<u>\$ 769,223</u>	<u>\$ 47,812</u>	<u>\$ 817,035</u>

The notes to the financial statements are an integral part of this statement.

FLATHEAD FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Food given away	\$ 1,881,073	\$ -	\$ -	\$ 1,881,073
Salaries and wages	124,770	41,518	47,725	214,013
Employee benefits	7,078	1,225	1,408	9,711
Payroll taxes	33,906	4,430	5,092	43,428
Insurance	2,377	264	-	2,641
Depreciation	6,901	767	-	7,668
Professional services	16,936	1,854	-	18,790
Building repair and maintenance	22,893	1,594	-	24,487
Equipment repair and maintenance	19,159	-	-	19,159
Utilities	15,818	768	-	16,586
Office and administration	15,636	2,913	-	18,549
Credit card and bank charges	3,454	64	-	3,518
CSFP program assistance	1,429	-	-	1,429
Advertising	4,699	724	1,290	6,713
Rent	27,000	3,000	-	30,000
Thrift store - payroll expenses	175,134	-	-	175,134
Thrift store - rent	18,000	-	-	18,000
Capital campaign expenses	-	-	16,443	16,443
Total expenses by function	<u>2,376,263</u>	<u>59,121</u>	<u>71,958</u>	<u>2,507,342</u>
	94.8%	2.4%	2.9%	100%
Less expenses included within revenue and support in the statement of activities:				
Investment fees	<u>(250)</u>	<u>-</u>	<u>-</u>	<u>(250)</u>
Functional expenses reported on the statement of activities	<u>\$ 2,376,013</u>	<u>\$ 59,121</u>	<u>\$ 71,958</u>	<u>\$ 2,507,092</u>

The notes to the financial statements are an integral part of this statement.

FLATHEAD FOOD BANK, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 97,319
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	7,668
Gain on sale of asset	(6,000)
Earnings from beneficial interest in assets held by others	(16)
Changes in operating assets and liabilities	
Inventory	(54,218)
Accounts payable	(2,252)
Accrued liabilities	<u>(3,165)</u>
Total adjustments	<u>(57,983)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>39,336</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from sale of equipment	6,000
Purchases of property and equipment	<u>(5,318)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>682</u>
Net change in cash and cash equivalents	40,018
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>361,562</u>
End of year	<u><u>\$ 401,580</u></u>
Presented on the Statement of Financial Position as:	
Cash and cash equivalents - general	\$ 361,819
Cash and cash equivalents - restricted	<u>39,761</u>
	<u><u>\$ 401,580</u></u>

The notes to the financial statements are an integral part of this statement.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 1. ORGANIZATION AND PURPOSE

The Flathead Food Bank, Inc. (Food Bank) is a nonprofit corporation organized for the purpose of operating a food collection and distribution system for low-income families and individuals in Flathead County. The Food Bank voluntarily participates in two programs that provide government commodities to seniors and children on a monthly basis. The main office and distribution center are located in Kalispell, Montana. The Food Bank also operates mobile pantries in Martin City, Hungry Horse, Coram, Kila, and Marion, Montana.

The Food Bank also operated a thrift store known as Second Helpings, which was located next to the main office in Kalispell, Montana. The mission of the thrift store was to support the operations of the Food Bank. Second Helpings was closed in August 2018 due to lack of financial resources enabling the Food Bank to better focus on its core mission of collecting and distributing food for low-income families in Flathead County.

Contributions and donations, including donated food, comprise approximately 87% of the Food Bank's revenue while the thrift store operations comprise approximately 9% of total revenue.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Food Bank's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as codified by the Financial Accounting Standards Board.

B. Adoption of Accounting Standard

The FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities on August 18, 2016. This update addressed the complexity and understandability of the classification of net assets, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Food Bank implemented ASU 2016-14 in fiscal year 2019 and has adjusted the presentation in the financial statements accordingly. Total net assets at January 1, 2018 were not changed from implementing this ASU.

The Food Bank adopted and implemented provisions of FASB ASU 2016-16: Statement of Cash Flows (Topic 230) – *Restricted Cash* effective January 1, 2018. This update requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and restricted cash.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Food Bank considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time, certain bank accounts that are subject to coverage by the Federal Deposit Insurance Corporation (FDIC) may exceed their insured limits. At December 31, 2018, approximately \$65,500 was not fully insured by the FDIC. The Food Bank does not believe it is exposed to any significant credit risk on its cash balances.

D. Inventory

Food inventory is acquired primarily through donations and purchased when necessary. Inventory is decreased as it is distributed to individuals and families on a per-pound basis. The Food Bank reports inventory at net realizable value (first-in, first-out basis) and values food at the weighted average per pound, \$1.68 in 2018, as determined by Feeding America.

E. Property and Equipment

Property and equipment are stated at cost if purchased or at fair value on the date of donation. Assets costing \$2,500 or more and having a useful life more than one year are capitalized. Repairs and maintenance costs are expensed as incurred and improvements that extend the life or capacity of the asset are capitalized. Items are depreciated on a straight-line basis over the following estimated useful lives:

Building Improvements	7 - 15 years
Vehicles and Equipment	5 - 7 years

Depreciation expense totaled \$7,668 for the year ended December 31, 2018.

F. Compensated Absences

Employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation totaled \$5,232 at December 31, 2018.

G. Net Asset Classification

The Food Bank reports information regarding its financial position and activities according to two classes of net assets in accordance with GAAP – net assets without donor restrictions and net assets with donor restrictions.

Without Donor Restrictions: Net assets without donor restrictions represent funds that are available to support the Food Bank's operations with no donor imposed or board of director designated restrictions.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Net Asset Classification, continued

With Donor Restrictions: Net assets with donor restrictions represent funds which are donor-restricted for specific purposes, uses, or use in a specific period. Some may not expire by the passage of time nor be fulfilled or otherwise removed by actions of the Food Bank. The Food Bank had net assets with donor restrictions in 2018 for the capital campaign and Kalispell Community Foundation Endowment detailed in Note 9.

Donor-restricted funds are classified as with donor restrictions until the donor restriction expires either by the time restriction ending or the purpose restriction being accomplished, at which time they are accounted for as net assets released from restriction and reclassified as net assets without donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions.

Public support and revenue are reported as increases in net assets without donor restrictions, unless use of the related asset is restricted by the donor, in the statements of activities. Expenses are reported as decreases in net assets without donor restrictions in the statements of activities. Gains and losses on investment and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless explicit donor stipulation or law restricts their use.

H. Public Support and Revenue

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

I. In-kind Contributions

The Food Bank seeks and receives a significant amount of contributed food inventory that is recorded in the accompanying financial statements as unrestricted support. Contributed items are recorded at a per-pound value using the weighted average price per pound determined by Feeding America.

In-kind donations of non-food goods are valued at their estimated fair value at the time of donation. The value of donated services is determined by the donors as the usual fees they would receive for such services in the normal course of their business.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. In-kind Contributions, continued

Donors of food items are provided receipts showing the number of pounds of their in-kind donations. Other donation receipts show the fair-value of the donation. Donated goods and services are recorded in the financial statements as unrestricted revenue and as either a corresponding expense or capitalized asset.

Contributed goods for resale in the thrift store are recognized at fair value according to their realized sales value on the date of sale. They are recorded at their ultimate sales price and reflected accordingly in the accompanying financial statements.

J. Donated Services

The Food Bank receives donated services that do not require specific expertise, but which are nonetheless central to the Food Bank's operations. Much of this time is to assist with processing inventory. The Food Bank received 14,645 hours of volunteer time in 2018. The estimated value of volunteer services, based on the nature of the service and the amount of time donated, totaled \$117,158 in 2018. The value of these services is not reflected in the financial statements in accordance with GAAP.

K. Expense Allocations

The cost of program, management and general, and fundraising activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited. The Employee related costs are allocated primarily based on time and other costs are allocated primarily based on space utilized.

L. Advertising

Advertising expenses of \$6,713 were expensed as incurred during 2018.

M. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual amounts could differ from those estimates.

N. Income Tax Status

The Food Bank is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the increase in net assets is generally not subject to taxation. No provision for income taxes has been recorded in the financial statements as the Food Bank does not believe it had any unrelated business income in 2018.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Risks and Uncertainty

The Food Bank is exposed to various risks of losses related to torts, damage or loss of assets, errors or omissions, injuries to employees, economic conditions, and changes in financial markets. The Food Bank mitigates its risk through various insurance policies.

P. Subsequent Events

Management has evaluated subsequent events through _____, 2019, the date which the financial statements were available for issue.

Q. Recent Accounting Pronouncements

The FASB issued Accounting Standard Update (ASU) 2014-09: *Revenue from Contracts with Customers, Topic 606*, in May 2014. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods or services, guidance on accounting for certain contracts, and contains significant new required disclosures. This ASU supersedes current revenue recognition requirements by the FASB and industry-specific guidance. The provisions of this ASU must be applied using one of two retrospective methods. This ASU is effective for annual periods beginning after December 15, 2018. Early implementation was permitted. The Food Bank elected not to early implement and is currently evaluating transition methods. The Food Bank does not expect the impact of this ASU on its financial statements to be significant.

The FASB issued Accounting Standard Update (ASU) 2016-02: *Leases* in February 2016. This ASU requires the recognition of lease assets and liabilities in the financial statements as a “right-of-use” asset and a lease liability. This ASU supersedes lease accounting requirements of the FASB and requires new, additional disclosures. Lessees and Lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The provisions of this ASU are effective for annual periods beginning after December 15, 2019. Early implementation is permitted. The Food Bank has elected not to early implement and is currently evaluating the impact of this ASU to its financial statements.

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditures, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

Cash and cash equivalents - general	\$ 361,819
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NOTE 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2018 was composed of the following:

	December 31, 2018
Checking accounts - banks	\$ 299,474
Money market accounts - banks	62,345
	\$ 361,819

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 was as follows:

	December 31, 2017	Additions	Disposals	December 31, 2018
Building improvements	\$ 102,644	\$ -	\$ -	\$ 102,644
Equipment	145,725	5,318	(15,498)	135,545
Vehicle	102,526	-	-	102,526
	350,895	5,318	(15,498)	340,715
Accumulated depreciation	(292,181)	(7,668)	15,498	(284,351)
Property and equipment, net	\$ 58,714	\$ (2,350)	\$ -	\$ 56,364

NOTE 6. LEASES

The Kalispell pantry lease is a multi-year lease from January 1, 2010 through December 31, 2019 with lease payments of \$2,500 per month. The lease has an option to renew for a subsequent ten-year period with a cost of living rent adjustment that would be negotiated at renewal.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 6. LEASES, Continued

The Kalispell thrift store lease is a multi-year lease that commenced August 1, 2011 and ended September 30, 2019 with rent at \$4,200 per month. This lease was amended in July 2016 reducing rent to \$2,000 per month.

Rent expense totaled \$30,000 for the pantry and \$18,000 for the thrift store in 2018. Future minimum lease payments for the pantry is expected to be \$30,000 in 2019 and \$30,000 in 2020.

NOTE 7. CAPITAL CAMPAIGN

The Food Bank is exploring options for purchasing their own building to house the pantry.

Capital campaign expenses reported on the Statement of Functional Expenses are comprised primarily of personnel expenses related to fundraising activities and monitoring donor contributions.

Support from contributions and donations are reported as net assets with donor restrictions on the Statement of Activities.

NOTE 8. FAIR VALUE MEASUREMENTS

A framework for measuring fair value and defining fair value is provided by GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

GAAP also establishes a fair value hierarchy, which prioritizes the valuation of inputs into broad levels, as described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 for which all significant inputs are observable, either directly, or indirectly.

Level 3 – Significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date.

Beneficial interests in assets held by others – valued at fair value using information provided by the Kalispell Community Foundation and Flathead Foodbank Endowment D.A. Davidson year-end statements.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 8. FAIR VALUE MEASUREMENTS, Continued

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Food Bank's policy for determining the timing of significant transfers between Levels 1 and 2 is at the end of the reporting period.

The preceding methods described may produce a fair value calculation that may not be indicative of near realizable value or reflective of future fair values. Furthermore, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at reporting date.

Investment income on the statement of activities is interest and dividend income from various accounts, including the beneficial interest, and totaled \$740.

The following represents, by level, the Food Bank's fair value hierarchy for its financial assets measured on a recurring basis as of December 31, 2018:

	Fair Value Level 1 Inputs	Fair Value Level 2 Inputs	Fair Value Level 3 Inputs	Total
Beneficial interest in assets held by others	\$ -	\$ -	\$ 8,051	\$ 8,051
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,051</u>	<u>\$ 8,051</u>

A reconciliation of beginning and ending fair values for assets measured using Level 3 inputs for the year ended December 31, 2018 follows:

Fair market value, beginning of year	\$ 8,035
Contributions in revenue	-
Realized and unrealized gains	(176)
Reinvested interest and dividends	442
Endowment administrative fee	<u>(250)</u>
Fair market value, end of year	<u>\$ 8,051</u>

The Food Bank established a long-term investment with the Kalispell Community Foundation for the benefit of the Food Bank. The Food Bank is the designated beneficiary for this fund and gave variance power to the Kalispell Community Foundation. Variance power gives the Kalispell Community Foundation complete control and ownership of the investment fund.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 8. FAIR VALUE MEASUREMENTS, Continued

The Kalispell Community Foundation Board of Directors has full authority to vary the terms of the endowment as appropriate. The Kalispell Community Foundation Board of Directors determines the amount of any annual distributions.

NOTE 9. NET ASSET CLASSIFICATION AND PRESENTATION

Net assets at December 31, 2018 are classified and presented as follows:

Net assets without donor restrictions	\$ 769,223
Net assets with donor restrictions	
Subject to expenditure for specified purpose and time restriction:	
Capital campaign	39,761
Subject to passage of time:	
Beneficial interest in assets held by others	<u>8,051</u>
Total	<u>47,812</u>
Total net assets	<u><u>\$ 817,035</u></u>