



FLATHEAD FOOD BANK, INC.
INDEPENDENT AUDITOR'S REPORT and
FINANCIAL STATEMENTS
December 31, 2020 and 2019

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	1 and 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities	4 to 5
Statements of Functional Expenses	6 to 7
Statements of Cash Flows.....	8
Notes to the Financial Statements.....	9 to 19



Peterson CPA Group, P.C.

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 statements of financial position as of December 31, 2020 and 2019 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 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 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State of America.

Peterson CPA Group, P.C.

Missoula, Montana

May 24, 2021

FINANCIAL STATEMENTS

FLATHEAD FOOD BANK, INC.
STATEMENTS OF FINANCIAL POSITION
As of December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - general	\$ 1,667,489	\$ 407,479
Food inventory	559,406	347,467
Total Current Assets	2,226,895	754,946
PROPERTY AND EQUIPMENT, NET	906,303	5,629
OTHER ASSETS		
Cash and cash equivalents - restricted	44,961	42,361
Beneficial interest in assets held by others	26,406	9,227
Total Other Assets	71,367	51,588
TOTAL ASSETS	\$ 3,204,565	\$ 812,163
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 16,028	\$ 11,284
Accrued liabilities	12,598	6,562
Current portion of long-term debt	12,349	-
Total Current Assets	40,975	17,846
LONG-TERM LIABILITIES		
Notes payable	637,651	-
PPP loan advance	57,700	-
Total Long-Term Liabilities	695,351	-
TOTAL LIABILITIES	736,326	17,846
NET ASSETS		
Without donor restrictions	2,396,872	742,729
With donor restrictions	71,367	51,588
TOTAL NET ASSETS	2,468,239	794,317
TOTAL LIABILITIES AND NET ASSETS	\$ 3,204,565	\$ 812,163

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

FLATHEAD FOOD BANK, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donated food	\$ 5,124,998	\$ -	\$ 5,124,998
Contributions and grants	2,025,355	27,149	2,052,504
United Way contributions	18,115	-	18,115
Fundraising events	51,559	-	51,559
CSFP program administration	29,714	-	29,714
Interest and dividend income	27	-	27
Other in-kind revenue	3,590	-	3,590
Unrealized loss - agency funds	-	(7,225)	(7,225)
Less: investment fees - agency funds	-	(145)	(145)
Total Revenue and Support	<u>7,253,358</u>	<u>19,779</u>	<u>7,273,137</u>
Net Assets Released from Restriction	<u>-</u>	<u>-</u>	<u>-</u>
Net Revenue and Support	<u>7,253,358</u>	<u>19,779</u>	<u>7,273,137</u>
EXPENSES			
Program services	5,501,335	-	5,501,335
Management and general	43,034	-	43,034
Fundraising	54,846	-	54,846
Total Expenses	<u>5,599,215</u>	<u>-</u>	<u>5,599,215</u>
CHANGE IN NET ASSETS	1,654,143	19,779	1,673,922
NET ASSETS			
Beginning of year	<u>742,729</u>	<u>51,588</u>	<u>794,317</u>
End of year	<u>\$ 2,396,872</u>	<u>\$ 71,367</u>	<u>\$ 2,468,239</u>

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donated food	\$ 2,249,139	\$ -	\$ 2,249,139
Contributions and grants	543,707	2,600	546,307
United Way contributions	3,143	-	3,143
Fundraising events	34,796	-	34,796
CSFP Program administration	31,568	-	31,568
Loss on disposal of assets	(47,354)	-	(47,354)
Interest and dividend income	323	1,185	1,508
Unrealized gain - agency funds	-	241	241
Less: investment fees - agency funds	-	(250)	(250)
Total Revenue and Support	<u>2,815,322</u>	<u>3,776</u>	<u>2,819,098</u>
Net assets released from restriction	<u>-</u>	<u>-</u>	<u>-</u>
Net Revenue and Support	<u>2,815,322</u>	<u>3,776</u>	<u>2,819,098</u>
EXPENSES			
Program services	2,726,853	-	2,726,853
Management and general	58,716	-	58,716
Fundraising	56,247	-	56,247
Total Expenses	<u>2,841,816</u>	<u>-</u>	<u>2,841,816</u>
CHANGE IN NET ASSETS	(26,494)	3,776	(22,718)
NET ASSETS			
Beginning of year	<u>769,223</u>	<u>47,812</u>	<u>817,035</u>
End of year	<u>\$ 742,729</u>	<u>\$ 51,588</u>	<u>\$ 794,317</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, 2020

	Program Services	Management and General	Fundraising	Total
Donated food given away	\$ 5,102,920	\$ -	\$ -	\$ 5,102,920
Salaries and wages	226,975	26,310	48,784	302,069
Employee benefits	724	84	155	963
Payroll taxes	26,808	3,107	5,762	35,677
Insurance	883	98	-	981
Depreciation	3,659	-	-	3,659
Professional services	30,550	2,574	-	33,124
Building repair and maintenance	13,901	1,544	-	15,445
Equipment repair and maintenance	32,115	-	-	32,115
Utilities	14,849	1,650	-	16,499
Office and administration	17,537	4,273	145	21,955
Volunteer and public relations	118	-	-	118
Credit card and bank charges	2,512	279	-	2,791
CSFP program assistance	500	-	-	500
Advertising	284	260	-	544
Rent	27,000	3,000	-	30,000
Total expenses by function	<u>\$ 5,501,335</u>	<u>\$ 43,179</u>	<u>\$ 54,846</u>	<u>\$ 5,599,360</u>
	98.2%	0.8%	1.0%	100.0%
Less expenses included in revenue and support:				
Investment fees	<u>-</u>	<u>(145)</u>	<u>-</u>	<u>(145)</u>
Functional expenses reported on the statement of activities	<u>\$ 5,501,335</u>	<u>\$ 43,034</u>	<u>\$ 54,846</u>	<u>\$ 5,599,215</u>
	98.3%	0.8%	1.0%	100.0%

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, 2019

	Program Services	Management and General	Fundraising	Total
Donated food given away	\$ 2,466,067	\$ -	\$ -	\$ 2,466,067
Salaries and wages	130,039	43,272	49,741	223,052
Employee benefits	1,876	625	718	3,219
Payroll taxes	13,007	4,328	4,975	22,310
Insurance	1,652	184	-	1,836
Depreciation	3,043	338	-	3,381
Professional services	36,258	1,876	-	38,134
Building repair and maintenance	11,981	1,331	-	13,312
Equipment repair and maintenance	14,971	-	-	14,971
Utilities	6,992	777	-	7,769
Office and administration	11,969	2,685	-	14,654
Volunteer and public relations	147	-	-	147
Credit card and bank charges	651	72	-	723
CSFP program assistance	1,160	-	-	1,160
Advertising	290	228	813	1,331
Rent	27,000	3,000	-	30,000
Total expenses by function	<u>\$ 2,727,103</u>	<u>\$ 58,716</u>	<u>\$ 56,247</u>	<u>\$ 2,842,066</u>
	96.0%	2.1%	2.0%	100.0%
Less expenses included in revenue and support:				
Investment Fees	<u>(250)</u>	<u>-</u>	<u>-</u>	<u>(250)</u>
Functional expenses reported on the statement of activities	<u>\$ 2,726,853</u>	<u>\$ 58,716</u>	<u>\$ 56,247</u>	<u>\$ 2,841,816</u>
	96.0%	2.1%	2.0%	100.0%

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

FLATHEAD FOOD BANK, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	\$ 1,673,922	\$ (22,718)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	3,659	3,381
Loss on sale of asset	-	47,354
Earnings from beneficial interest in assets held by others	(17,179)	(1,176)
Changes in operating assets and liabilities:		
Food inventory	(211,939)	19,390
Accounts payable	4,744	1,872
Accrued liabilities	6,036	157
Total adjustments	(214,679)	70,978
Net Cash Flows from Operating Activities	1,459,243	48,260
INVESTING ACTIVITIES		
Purchases of property and equipment	(904,333)	-
Net Cash Flows from Investing Activities	(904,333)	-
FINANCING ACTIVITIES		
Proceeds from borrowings	707,700	-
Net Cash Flows from Financing Activities	707,700	-
NET CHANGE IN CASH	\$ 1,262,610	\$ 48,260
CASH AND CASH EQUIVALENTS		
Beginning of year	449,840	401,580
End of year	\$ 1,712,450	\$ 449,840
Cash on the Statement of Financial Position:		
Cash and cash equivalents - general	\$ 1,667,489	\$ 407,479
Cash and cash equivalents - restricted	44,961	42,361
	\$ 1,712,450	\$ 449,840
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Noncash operating activities:		
In-kind contributions used in operations	\$ 3,043,634	\$ 1,396,303

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

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

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. The Food Bank voluntarily participates in a program that provides 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.

Contributions and donations, including donated food, typically comprise over 98% of the Food Bank's 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. Cash, Cash Equivalents, and Restricted Cash

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, 2020 and 2019, approximately \$1,317,000 and \$109,000 was not fully insured by the FDIC, respectively. The Food Bank does not believe it is exposed to any significant credit risk on its cash balances.

Restricted cash includes amounts held in a building fund.

C. 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 Feeding America weighted average rate per pound, \$1.68 and \$1.62 for 2020 and 2019, respectively.

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. 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 \$3,659 and \$3,381 for the years ended December 31, 2020 and 2019, respectively.

E. Compensated Absences

Employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation totaled \$8,303 and \$5,785 at December 31, 2020 and 2019, respectively.

F. 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.

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 at December 31, 2020 and 2019 for the capital campaign and Kalispell Community Foundation Endowment detailed in Note 8.

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 “net assets 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 statement of activities.

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Net Asset Classification, continued

Expenses are reported as decreases in net assets without donor restrictions in the statement 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.

G. Revenue Recognition

The Food Bank's significant revenue streams include donations, contributions, and grants. These revenue streams are reporting following guidance from Topic 958.

All other revenue sources, which individually are not material to the overall financial statements, are recognized following guidance from ASC 606 at a point in time to all contracts at the date of initial application. There were no significant economic factors impacting revenue recognition.

Contributions that are restricted by the donor or grantor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue was recognized. All other donor or grantor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills and are performed by people with those skills and would otherwise be purchased by the Food Bank.

H. 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.

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.

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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 7,456 hours of volunteer time in 2020 and 8,618 hours of volunteer time in 2019. The estimated value of volunteer services, based on the nature of the service and the amount of time donated, totaled \$59,648 and \$68,944 in 2020 and 2019, respectively. The value of these services is not reflected in the financial statements in accordance with GAAP.

J. Functional 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.

Food program costs are directly charged to program expense. Maintenance and repair costs for equipment, CSFP expenses, and volunteer expenses are allocated 100% to program expense. Special events and other direct fundraising activities are direct charged to fundraising. Employee related costs are allocated based on an analysis of employee time. The remaining expenses are allocated using an estimate of space used.

K. Advertising

The Food Bank expenses advertising costs the first time the advertising occurs. Advertising costs for the years ended December 31, 2020 and 2019 totaled \$544 and \$1,331, respectively.

L. 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.

M. 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 2020 or 2019.

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. 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.

O. Subsequent Events

Management has evaluated subsequent events through May 24, 2021, the date which the financial statements were available for issue. See further discussion in Note 9.

P. Recent Accounting Pronouncements

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 FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities* on June 3, 2020. This ASU defers the effective date of Topic 606 and Topic 842 for certain entities that had not yet issued their financial statements to support and assist stakeholders as they cope with the challenges and hardships related to the COVID-19 pandemic.

The Food Bank elected to defer adoption of Topic 842 to annual reporting periods beginning after December 15, 2021.

NOTE 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the statements of financial position date are comprised of the following:

	December 31, 2020	December 31, 2019
Cash and cash equivalents - general	<u>\$ 1,667,489</u>	<u>\$ 407,479</u>

FLATHEAD FOOD BANK, INC.

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019**

NOTE 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2020 were comprised of the following:

	<u>2020</u>	<u>2019</u>
Checking accounts - banks	\$ 1,604,964	\$ 344,861
Money market accounts - banks	<u>62,525</u>	<u>62,618</u>
	<u>\$ 1,667,489</u>	<u>\$ 407,479</u>

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment comprised of the following at December 31:

	<u>2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>2019</u>
Leasehold improvements	\$ 102,644	\$ -	\$ (102,644)	\$ -
Equipment	135,545	-	(63,482)	72,063
Vehicles	<u>102,526</u>	<u>-</u>	<u>-</u>	<u>102,526</u>
	340,715	-	(166,126)	174,589
Accumulated depreciation	<u>(284,351)</u>	<u>(3,381)</u>	<u>118,772</u>	<u>(168,960)</u>
Property and equipment, net	<u>\$ 56,364</u>	<u>\$ (3,381)</u>	<u>\$ (47,354)</u>	<u>\$ 5,629</u>
	<u>2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>2020</u>
Building improvements	\$ -	\$ 850,000	\$ -	\$ 850,000
Equipment	72,063	54,333	-	126,396
Vehicle	<u>102,526</u>	<u>-</u>	<u>-</u>	<u>102,526</u>
	174,589	904,333	-	1,078,922
Accumulated depreciation	<u>(168,960)</u>	<u>(3,659)</u>	<u>-</u>	<u>(172,619)</u>
Property and equipment, net	<u>\$ 5,629</u>	<u>\$ 900,674</u>	<u>\$ -</u>	<u>\$ 906,303</u>

The Food Bank conducted a physical inventory of its equipment for 2019 and identified certain assets that were no longer in service at December 31, 2019. Most of these assets had been fully depreciated in previous years. The Food Bank's Thrift Store operations ceased in 2018 and the lease expired in 2019. Thrift Store leasehold improvements were disposed of in 2019. In 2019, the Food Bank disposed of \$166,126 of previously capitalized equipment and leasehold improvements and accumulated depreciation of \$118,772 resulting in a loss on disposal of \$47,354.

In December 2020, the Food Bank purchased the facility it had been leasing. See Notes 6 and 10.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

NOTE 6. LEASES

The Kalispell pantry lease was a multi-year lease from January 1, 2010 through December 31, 2020 with lease payments of \$2,500 per month. Rent expense totaled \$30,000 in 2020 and 2019, respectively. This lease was not renewed as the Food Bank purchased the facility.

NOTE 7. CAPITAL CAMPAIGN

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. The Food Bank started a capital campaign for purchasing and renovating the building purchased in December 2020.

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 Flathead Community Foundation and Flathead Foodbank Endowment D.A. Davidson year-end statements.

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. There were no transfers between levels in 2020 and 2019.

FLATHEAD FOOD BANK, INC.

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 8. FAIR VALUE MEASUREMENTS, Continued

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 the reporting date. Investment income on the statement of activities is interest and dividend income from various accounts, including the beneficial interest, and totaled \$27 in 2020 and \$1,508 in 2019.

The following presents the Food Bank's financial assets, measured on a recurring basis, in the fair value hierarchy as of December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by others	\$ -	\$ -	\$ 26,406	\$ 26,406
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,406</u>	<u>\$ 26,406</u>
<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by others	\$ -	\$ -	\$ 9,227	\$ 9,227
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,227</u>	<u>\$ 9,227</u>

A reconciliation of beginning and ending fair values for assets measured using Level 3 inputs for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Fair market value, beginning of year	\$ 9,227	\$ 8,051
Additions	35,873	-
Disposals	(12,479)	-
Realized and unrealized gains (losses)	(7,225)	241
Reinvested interest and dividends	1,155	1,185
Endowment administrative fee	<u>(145)</u>	<u>(250)</u>
Fair market value, end of year	<u>\$ 26,406</u>	<u>\$ 9,227</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. The Kalispell Community Foundation Board of Directors has full authority to vary the terms of the endowment as appropriate and determines the amount of any annual distributions.

FLATHEAD FOOD BANK, INC.

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019**

NOTE 9. PAYCHECK PROTECTION PROGRAM LOAN

The Food Bank borrowed \$57,700 under the Paycheck Protection Program (PPP) as administered by the Small Business Administration (SBA) in April 2020. The loan is not collateralized and is fully guaranteed by the Federal Government. The Food Bank applied for forgiveness of this loan in 2020 and has complied with the PPP requirements. The Food Bank expects the loan will be forgiven. The Food Bank will be required to repay any amount not forgiven with interest at 1% in monthly principal and interest payments commencing upon notification of partial forgiveness or non-forgiveness.

In January 2021, the Food Bank received full forgiveness of the PPP loan from the SBA.

NOTE 10. NOTES PAYABLE

A description of the notes payable at December 31, are as follows:

<u>Description</u>	<u>2020</u>	<u>2019</u>
Note payable to a local financial institution, interest at 3.50% over the FHLB 5yr/20yr rate, which was 0.75% at December 30, 2020, with a floor of 4.50%. The rate was 4.50% at December 31, 2020. Monthly principle and interest payments of \$1,581.57, with final payment due December 2040; secured by real estate.	\$ 250,000	\$ -
Note payable to a local lender, interest is fixed at 4.50%. Monthly principle and interest payments of \$950.15 beginning February 2021, with final balloon payment due January 2026; secured by real estate.	150,000	-
Note payable to a local lender, interest of 4.50% for 12 months, then 3.50% over the FHLB 5yr/20yr rate for the term. The FHLB rate was 0.75% at December 30, 2020, The rate will not be less than 4.50%. Interest only payments for the first 12 months then monthly principle and interest payments for the term of the loan, with final payment due December 2041; secured by real estate.	<u>250,000</u>	<u>-</u>
Total long-term debt	\$ 650,000	\$ -
Less: current portion	<u>(12,349)</u>	<u>-</u>
Net long-term portion	<u>\$ 637,651</u>	<u>\$ -</u>

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 10. NOTES PAYABLE, Continued

Notes payable were originated in December 2020 to acquire the facility the Food Bank has previously leased.

In accordance with ASU 2015-03, loan balances are reported at unpaid principal balances net of unamortized issuance costs and amortization of issuance costs is recorded as interest expense. Interest expense totaled \$0 for the years ending December 31, 2020 and 2019.

The Food Bank was in compliance with loan covenants at December 31, 2020.

Annual debt maturities are as follows:

December 31,	
2021	\$ 12,349
2022	21,087
2023	22,055
2024	22,993
2025	24,125
Thereafter	547,391
	\$ 650,000

NOTE 11. NET ASSET CLASSIFICATION AND PRESENTATION

Net assets at December 31, 2020 and 2019 are classified and presented as follows:

	2020	2019
Net assets without donor restrictions	\$ 2,396,872	\$ 742,729
Net assets with donor restrictions:		
Subject to expenditure for specified purpose or time restriction:		
Capital campaign	44,961	42,361
Subject to passage of time:		
Beneficial interest in assets held by others	26,406	9,227
Net assets with donor restrictions	71,367	51,588
Total net assets	\$ 2,468,239	\$ 794,317

FLATHEAD FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 12. ECONOMIC CONDITIONS

The World Health Organization declared the outbreak of the coronavirus a pandemic in March 2020. The coronavirus has spread throughout the United States of America and has impacted the national economy, the Montana economy, and shut down certain industries. The Food Bank is closely monitoring its operations, liquidity, and capital resources as management works to minimize the financial impact of this unprecedented situation. The impact to the Food Bank's financial statements is unknown at this time and cannot be reasonably estimated.