



Consolidated Financial Statements
June 30, 2010 and 2009

**St. Mary's Food Bank Alliance and
St. Mary's Food Bank Foundation**

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation

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June 30, 2010 and 2009

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Independent Auditor's Report

To the Board of Directors
St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Phoenix, Arizona

We have audited the accompanying consolidated statement of financial position of St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation (a nonprofit organization) as of June 30, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year comparative and summarized comparative information has been derived from the financial statements of St. Mary's Food Bank Alliance as of June 30, 2009, which were audited by other auditors whose report dated December 3, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010, on our consideration of St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation taken as a whole. The supplemental consolidating information on pages 20-21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Phoenix, Arizona
December 21, 2010

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St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Consolidated Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,068,236	\$ 2,568,019
Inventories	12,212,244	12,534,324
Program and other receivables, net	592,654	134,919
Other current assets	246,043	74,415
Total current assets	18,119,177	15,311,677
Investments	4,545,567	4,685,076
Cash Restricted for Purchase of Equipment	8,760	8,760
Assets Restricted to Investment in Long-Term Purposes		
Cash	-	452,067
Pledges receivable, net	2,055,472	2,917,938
Construction in progress	3,161,293	308,044
Property and Equipment, net	15,183,053	9,587,125
Total assets	\$ 43,073,322	\$ 33,270,687
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,085,694	\$ 637,198
Accrued payroll expenses	150,535	148,468
Other accrued liabilities	335,869	320,416
Unearned revenue	-	87,806
Current maturities of gift annuities payable	28,277	44,590
Current maturities of capital lease obligations	249,045	233,755
Current maturities of notes payable	274,667	-
Total current liabilities	2,124,087	1,472,233
Gift annuities payable, less current maturities	202,733	300,480
Capital lease obligations, less current maturities	1,108,101	1,357,106
Notes payable, less current maturities	6,519,711	-
Total liabilities	9,954,632	3,129,819
Net Assets		
Unrestricted	23,586,532	22,028,060
Board designated	4,205,423	4,298,344
Total unrestricted	27,791,955	26,326,404
Temporarily restricted	5,320,735	3,778,368
Permanently restricted	6,000	36,096
Total net assets	33,118,690	30,140,868
Total liabilities and net assets	\$ 43,073,322	\$ 33,270,687

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Consolidated Statements of Activities
Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
Public Support					
Donated surplus food	\$ 105,508,940	\$ -	\$ -	\$ 105,508,940	\$ 109,851,276
Community contributions	11,995,418	2,276,745	-	14,272,163	16,580,416
Food Value Club	2,075,936	-	-	2,075,936	2,462,600
Governmental reimbursable grants	3,220,272	-	-	3,220,272	2,071,018
Source program	355,011	-	-	355,011	355,937
Shared maintenance fees	292,861	-	-	292,861	286,498
Kid's Café	140,360	-	-	140,360	29,852
Community Kitchen	-	-	-	-	1,051
Miscellaneous revenue	34,330	-	-	34,330	2,616
	<u>123,623,128</u>	<u>2,276,745</u>	<u>-</u>	<u>125,899,873</u>	<u>131,641,264</u>
Net assets released from restrictions	764,474	(734,378)	(30,096)	-	-
Total public support	<u>124,387,602</u>	<u>1,542,367</u>	<u>(30,096)</u>	<u>125,899,873</u>	<u>131,641,264</u>
Expenses					
Program services					
Distributions	68,308,218	-	-	68,308,218	63,284,144
Emergency Box programs	21,454,023	-	-	21,454,023	23,732,956
Food Value Club	12,810,058	-	-	12,810,058	17,023,197
Kid's Café	1,478,688	-	-	1,478,688	2,244,815
Commodity supplemental food program	13,905,385	-	-	13,905,385	14,231,578
Source distribution	341,402	-	-	341,402	336,885
Community Kitchen	378,576	-	-	378,576	335,965
	<u>118,676,350</u>	<u>-</u>	<u>-</u>	<u>118,676,350</u>	<u>121,189,540</u>
Supporting services					
Fundraising and communications	2,532,949	-	-	2,532,949	2,401,070
Management and general	1,958,313	-	-	1,958,313	2,060,233
Total expenses	<u>123,167,612</u>	<u>-</u>	<u>-</u>	<u>123,167,612</u>	<u>125,650,843</u>
Change in Net Assets Before Nonoperating Activities	<u>1,219,990</u>	<u>1,542,367</u>	<u>(30,096)</u>	<u>2,732,261</u>	<u>5,990,421</u>
Nonoperating Activities					
Investment interest and dividends	34,060	-	-	34,060	137,318
Net realized and unrealized losses on investments	19,990	-	-	19,990	(799,825)
Gain (loss) on sale of property and equipment	(7,758)	-	-	(7,758)	(552,435)
Other income	199,269	-	-	199,269	465,762
Total nonoperating activities	<u>245,561</u>	<u>-</u>	<u>-</u>	<u>245,561</u>	<u>(749,180)</u>
Change in Net Assets	1,465,551	1,542,367	(30,096)	2,977,822	5,241,241
Net Assets, Beginning of Year	<u>26,326,404</u>	<u>3,778,368</u>	<u>36,096</u>	<u>30,140,868</u>	<u>24,899,627</u>
Net Assets, End of Year	<u>\$ 27,791,955</u>	<u>\$ 5,320,735</u>	<u>\$ 6,000</u>	<u>\$ 33,118,690</u>	<u>\$ 30,140,868</u>

	Distributions	Emergency Box Programs	Food Value Club	Kid's Café	Commodity Supplemental Food Program	Source Distribution
Salaries and related expenses	\$ 2,901,625	\$ 847,193	\$ 678,311	\$ 304,673	\$ 861,618	\$ 35,464
Food purchases	402,946	426,615	1,486,912	377,692	340,006	275,606
Occupancy costs	406,774	128,465	75,952	11,315	82,288	5,378
Donated food surplus	62,860,105	19,504,066	10,192,881	723,685	12,209,971	-
Education and training	10,087	3,188	1,877	1,318	2,037	133
Fuel	240,521	76,023	44,787	6,698	48,563	3,182
Insurance	170,125	53,772	31,660	4,625	34,350	2,251
Supplies	48,943	13,522	17,557	7,495	13,594	566
Other expenses	162,145	49,249	57,070	4,265	42,095	4,203
Packaging products	144,396	45,640	26,872	3,946	71,190	1,910
Postage/mail	2,439	770	451	66	492	32
Printing	2,720	1,415	16,050	74	1,163	36
Professional fees	22,562	9,209	4,517	997	4,520	296
Rental/lease	7,590	2,399	1,412	206	1,532	100
Shipping and freight	2,328	736	433	63	470	31
Telephone and computers	32,404	10,241	6,945	3,257	8,512	429
Travel	32,246	10,245	6,555	4,979	9,493	429
Vehicle costs	316,424	100,014	58,981	8,603	64,089	4,187
Total functional expenses before depreciation	67,766,380	21,282,762	12,709,223	1,463,957	13,795,983	334,233
Depreciation and amortization	541,838	171,261	100,835	14,731	109,402	7,169
Total functional expenses	<u>\$ 68,308,218</u>	<u>\$ 21,454,023</u>	<u>\$ 12,810,058</u>	<u>\$ 1,478,688</u>	<u>\$ 13,905,385</u>	<u>\$ 341,402</u>

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Consolidated Statements of Functional Expenses
Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

Community Kitchen	Total Program Services	Fundraising and Communications	Management and General	Total Supporting Services	2010	2009
\$ 294,551	\$ 5,923,435	\$ 1,237,542	\$ 1,064,713	\$ 2,302,255	\$ 8,225,690	\$ 7,772,210
908	3,310,685	-	-	-	3,310,685	3,237,424
2,639	712,811	175	3,893	4,068	716,879	704,741
8,509	105,499,217	-	-	-	105,499,217	108,314,835
36,220	54,860	8,210	32,815	41,025	95,885	174,120
33	419,807	70	175	245	420,052	426,382
198	296,981	-	16,302	16,302	313,283	277,409
13,104	114,781	11,002	24,578	35,580	150,361	85,250
2,911	321,938	138,376	135,182	273,558	595,496	916,229
20	293,974	61	-	61	294,035	283,139
270	4,520	414,938	16,268	431,206	435,726	414,549
2,337	23,795	504,844	5,638	510,482	534,277	461,683
2,552	44,653	152,557	249,605	402,162	446,815	451,428
1	13,240	434	750	1,184	14,424	145,211
-	4,061	12,550	-	12,550	16,611	22,346
12,277	74,065	10,087	360,323	370,410	444,475	422,878
1,930	65,877	36,700	41,972	78,672	144,549	170,273
43	552,341	-	20	20	552,361	427,359
<u>378,503</u>	<u>117,731,041</u>	<u>2,527,546</u>	<u>1,952,234</u>	<u>4,479,780</u>	<u>122,210,821</u>	<u>124,707,466</u>
<u>73</u>	<u>945,309</u>	<u>5,403</u>	<u>6,079</u>	<u>11,482</u>	<u>956,791</u>	<u>943,377</u>
<u>\$ 378,576</u>	<u>\$ 118,676,350</u>	<u>\$ 2,532,949</u>	<u>\$ 1,958,313</u>	<u>\$ 4,491,262</u>	<u>\$ 123,167,612</u>	<u>\$ 125,650,843</u>

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation

Consolidated Statements of Cash Flows
Year Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Changes in net assets	\$ 2,977,822	\$ 5,241,241
Adjustments to reconcile changes in net assets to net cash from operating activities		
Change in allowance for doubtful accounts	(70,000)	73,370
Depreciation and amortization	956,791	943,377
Change in discount on pledges receivable	(337,595)	551,231
Changes in allowance for pledges receivable	15,000	75,000
Capital campaign revenues	(1,268,000)	(3,625,000)
Loss on disposal of property and equipment	7,758	552,435
Amortization of discount on charitable gift annuities	-	14,876
Net realized and unrealized losses on investments	(19,990)	799,825
Changes in operating assets and liabilities		
Decrease (increase) in		
Inventories	322,080	(1,653,346)
Program and other receivables	(387,735)	602,626
Other current assets	(171,628)	(14,060)
Increase (decrease) in		
Accounts payable	448,496	198,936
Accrued payroll expenses	2,067	17,918
Other accrued liabilities	15,453	83,645
Unearned revenue	(87,806)	87,806
Gift annuities payable	(114,060)	(45,623)
Net Cash from Operating Activities	2,288,653	3,904,257
Investing Activities		
Purchases of property and equipment	(6,478,074)	(1,960,268)
Purchases of assets restricted to investment in long-term purposes	(2,491,885)	(695,259)
Proceeds from sale of property and equipment	8,300	85,811
Purchase of investments	(148,874)	(636,840)
Proceeds from sale of investments	308,373	1,073,245
Net Cash used for Investing Activities	(8,802,160)	(2,133,311)
Financing Activities		
Collections on contributions restricted to investment in long-term purposes	2,453,061	655,057
Payments on capital lease obligations	(233,715)	(271,421)
Proceeds from the issuance of notes payable	7,954,600	-
Payments on notes payable	(1,160,222)	-
Net Cash from Financing Activities	9,013,724	383,636
Net Change in Cash and Cash Equivalents	2,500,217	2,154,582
Cash and Cash Equivalents, Beginning of Year	2,568,019	413,437
Cash and Cash Equivalents, End of Year	\$ 5,068,236	\$ 2,568,019
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 190,703	\$ 111,217

Note 1 - Principal Business Activity and Significant Accounting Policies

Nature of Operations

St. Mary's Food Bank Alliance (the "Food Bank"), the world's first food bank, was established in 1967 in Phoenix, Arizona. The Food Bank is a community-based, not-for-profit corporation whose primary mission is to alleviate hunger through advocacy, education, and gathering and distributing food to those in need.

The Food Bank is supported by various sources including community donations, the United Way, and government funding. The Food Bank is committed to volunteerism, the building of community partnerships, and improving the quality of life for the entire community. The Food Bank's programs provide food to individuals and organizations. The Food Bank serves as a food clearing house for over 500 partner agencies. The Food Bank also works as an advocate for solutions to end hunger.

In October 2009, the Food Bank transferred \$4.3 million of Board-designated funds into a newly formed 501(c)(3) entity, St. Mary's Food Bank Foundation (the "Foundation"). The establishment of the St. Mary's Food Bank Foundation is to facilitate the New Market Tax Credit financing and to provide a platform from which to enable the growth of the Food Bank's long-term reserves.

Principles of Consolidation

The consolidated financial statements include the accounts of the St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation (collectively, the "Organization"), financially interrelated organizations. All significant intercompany transactions and accounts have been eliminated in consolidation. The types of transactions that have been eliminated include advances between the entities and costs paid on behalf of another.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid assets with an initial maturity of three months or less to be cash equivalents. Cash collateral for certain debt is classified as investments. The Organization maintains cash at financial institutions, which, at times, may exceed federally insured amounts.

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

Inventories

Donated inventories are stated at the estimated value per pound as determined by Feeding America (formerly known as America's Second Harvest), the Nation's Food Bank Network, ("Feeding America") a national association of food banks, which provides assistance and valuation of food and grocery products. Purchased inventories are stated at the lower of cost, as determined using the first-in, first-out (FIFO) basis, or market value.

Investments

The Organization accounts for its investments in accordance with generally accepted accounting principles (GAAP). Under GAAP, the Organization is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is based on quoted market prices. Certificates of deposit are held to maturity and are carried at cost.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying financial statements.

Contributions/ Unconditional Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Revenue Recognition

Shared maintenance fee revenue is recognized as services are provided. Food Value Club revenue consists of amounts charged to customers for food boxes. The Food Value Club allows the general public to purchase boxes of food for a 30 – 50% savings from retail value. Food Value Club revenue is recognized as goods are provided. Kid's Café is a program providing meals to disadvantaged children in an environment that is safe and accessible. Kid's Café revenue is recognized as goods are provided.

Program and Other Receivables

Program and other receivables consist primarily of program-related receivables. Program and other receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to program and other receivables.

Property and Equipment

Purchased property and equipment is recorded at cost. Additions, renewals, and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved and any gain or loss is included in operations. The Organization capitalizes assets with a basis of \$1,000 or more and an estimated useful life of one year or more. Depreciation and amortization of property and equipment is computed on a straight-line basis over the following general range of estimated useful lives:

	Estimated Useful Lives
Building and improvements	20 - 40 years
Furniture, fixtures and equipment	1 - 10 years
Vehicles	5 - 10 years
Equipment held under capital leases	6 - 8 years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The Organization reviews its property and equipment whenever events indicate that the carrying value amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment charges were recorded for 2010 and 2009.

Donated Materials and Services

Donated materials and services are at their estimated fair value if they enhance the Organization's nonfinancial assets or require specialized skills that the Organization would normally purchase if not provided by donation.

No amounts have been reflected in the accompanying financial statements for certain donated volunteer services because they did not qualify under GAAP; however, a substantial number of volunteers have donated over 386,000 and 373,000 hours in 2010 and 2009, respectively, in processing donated food as well in the Organization's other program services, fundraising campaigns and administrative support.

Other Income

During 2009, the Organization received \$150,000 from an insurance settlement related to a construction defect. These amounts are included in other income in the accompanying statements of activities.

Functional Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited based on pounds distributed per program, square footage and payroll. Management and general include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction to the Organization.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising charged to operations was \$48,684 for 2010 and \$69,630 for 2009.

Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and accordingly, there is no provision for income taxes.

The Organization has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on July 1, 2009. The implementation of this standard had no impact on the consolidated financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Organization is no longer subject to Federal tax examinations by tax authorities for years before 2007 and state examinations for years before 2006.

Fair Value Measurements

The Organization has determined the fair value of certain assets in accordance with generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs used to determine fair value are classified into three broad levels, as more fully discussed in Note 16.

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

Note 2 - Inventories

Inventories consisted of the following at June 30:

	2010	2009
Donated food inventory	\$ 10,026,058	\$ 9,581,874
Commodities supplemental food program inventory	1,820,480	2,269,942
Purchased food inventory	351,069	624,154
Other inventory	14,637	58,354
	\$ 12,212,244	\$ 12,534,324

The Organization received donated food from various private and public sources. In order to provide a measurable basis evaluating the primary mission of the Organization, management values food for purposes of including donated and distributed food as components of the accompanying financial statements. For the years ended June 30, 2010 and 2009, donated food of approximately 65,900,000 and 69,500,000 pounds, respectively, valued at a composite price of \$1.60 and \$1.58 per pound, respectively, is reflected in the accompanying statements of activities at \$105,508,940 and \$109,851,276, respectively. The composite price is the estimated weighted average wholesale amount per pound, as determined by Feeding America.

Shipping and handling costs for donated food are expensed as they are incurred, and are included in the accompanying consolidated statement of functional expenses. Donated food shipping and handling expenses were \$755,162 and \$444,243 for the years ended June 30, 2010 and 2009, respectively.

Donated food surplus expense included in the accompanying statement of functional expense, net of discarded spoiled food, is included in the following program services:

	2010	2009
Distributions	\$ 62,860,105	\$ 58,727,932
Emergency Box programs	19,504,066	21,814,930
Food Value Club	10,192,881	13,954,193
Kid's Café	723,685	1,448,288
Commodity supplemental food program	12,209,971	12,338,103
Community Kitchen	8,509	31,389
	\$ 105,499,217	\$ 108,314,835

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

Note 3 - Program and Other Receivables

Program and other receivables consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Program	\$ 586,458	\$ 198,723
Other receivables	26,196	26,196
Total other receivables	<u>612,654</u>	<u>224,919</u>
Less allowance for doubtful accounts	<u>(20,000)</u>	<u>(90,000)</u>
	<u>\$ 592,654</u>	<u>\$ 134,919</u>

Note 4 - Investments

Investments at fair value consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cash collateral for debt	\$ 3,117,661	\$ -
Mutual funds	1,278,324	230,752
Bonds	94,616	114,177
Money market funds	52,402	3,492,710
U.S. government obligations	2,564	39,170
Corporate equities	-	604,267
Certificates of deposit	-	204,000
	<u>\$ 4,545,567</u>	<u>\$ 4,685,076</u>

Investment income consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Dividends and interest income	\$ 34,060	\$ 137,318
Realized losses on investments	(39,326)	(614,489)
Unrealized gains (losses) on investments	<u>59,316</u>	<u>(185,336)</u>
Total investment income (loss)	<u>\$ 54,050</u>	<u>\$ (662,507)</u>

Expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$2,910 and \$22,893 for the years ended June 30, 2010 and 2009, respectively, and are included in other expenses in the accompanying statement of functional expenses.

Note 5 - Split-Interest Agreements

The Organization is party to split-interest agreements classified as charitable gift annuities. Assets of the Organization that are derived from charitable gift annuities totaled \$306,356 and \$347,352 at June 30, 2010 and 2009, respectively and are included within investments in the accompanying statement of financial position.

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

The Organization reports contribution support from split-interest agreements and the change in valuation of split-interest agreements in contributions in the accompanying statement of financial position.

Charitable gift annuities are arrangements between a donor and the Organization in which the donor contributes assets to the Organization in exchange for a promise from the Organization to pay the donor a fixed amount for a specified period of time. Assets received have been recognized at fair value, and an annuity payment liability has been recognized at the present value of the future cash flow expected to be paid. Unrestricted contribution revenue is recognized as the difference between these two amounts as the donor has placed no restriction on the Organization's use of its portion of the assets. To calculate the present value of the charitable gift annuity, the life expectancy tables (published annually by the Internal Revenue Service Treasury Department) and the Applicable Federal Rate ("AFR") of 4.01% were used. Charitable gift annuities are estimated to mature through 2039.

Note 6 - Assets Restricted to Investment in Long-Term Purposes

During 2007, the Organization began a capital campaign to raise funds for improvements to and expansion of their facilities. The capital campaign has a total goal of \$10 million, \$3 million of which will be used for expansion of the Kid's Café program, \$3.6 million for agency food distribution and \$3.4 million for the Community Kitchen.

Pledges receivable restricted to investment in long term purposes consist of unconditional promises to give as follows:

	2010	2009
Unconditional promises to give due in less than one year	\$ 972,208	\$ 1,114,309
Unconditional promises to give due in two to five years	1,165,953	2,108,913
Unconditional promises to give due in excess of five years	300,000	400,000
Total unconditional promises to give	2,438,161	3,623,222
Less discount to present value	(292,689)	(630,284)
Less allowance for doubtful pledges	(90,000)	(75,000)
Net unconditional promises to give	\$ 2,055,472	\$ 2,917,938

The estimated cash flows for pledges receivable are discounted over an eight-year collection period using a management determined discount rate of 5%.

Pledges receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional pledges receivable.

At June 30, 2010, amounts included as construction in progress relate to the capital campaign for improvements to and expansion of the Organization's facilities. The construction was completed in July 2010.

Note 7 - Property and Equipment

Property and equipment consisted of the following at June 30:

	2010	2009
Land	\$ 2,832,408	\$ 1,556,574
Building and improvements	11,055,612	9,061,204
Furniture, fixtures and equipment	2,605,053	2,494,335
Vehicles	720,990	558,040
Equipment held under capital leases	1,875,740	1,875,740
Construction in progress	3,077,393	92,506
Total cost or donated value	22,167,196	15,638,399
Accumulated depreciation and amortization	(6,984,143)	(6,051,274)
	\$ 15,183,053	\$ 9,587,125

Depreciation and amortization expense charged to operations was \$956,791 and \$943,377 for the years ended June 30, 2010 and 2009, respectively.

Interest capitalized was \$90,703 and \$0 for the years ended June 30, 2010 and 2009, respectively.

The Organization leases warehouse and hauling equipment under capital leases expiring through 2015. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. Accumulated depreciation and amortization includes amortization expense on hauling equipment held under capital leases of \$271,250 and \$271,250 for the years ending June 30, 2010 and 2009, respectively.

Note 8 - Line of Credit

The Organization has a line of credit with an available borrowing limit of \$2,000,000. The line of credit is collateralized by a deed of trust on property, inventory and operating facilities. Interest is payable monthly at the one-month LIBOR (London Interbank Offered Rate) plus 275 basis points (3.097% at June 30, 2010). The line of credit matured in October 2010 and was renewed through October 2011. As of June 30, 2010 and 2009, there was no outstanding balance on this line of credit.

Note 9 - Capital Lease Obligations

Capital lease obligations consist of equipment leases, collateralized by equipment, payable in monthly installments totaling approximately \$27,000 including interest at 6% to 8%, with varying maturity dates through August 2015.

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Notes to Consolidated Financial Statements
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The obligations under capital leases reflect the present value of future rental payments, discounted at the interest rate implicit in the leases. The future minimum lease payments required under the capital leases at June 30, 2010 are as follows:

<u>Years Ending June 30,</u>	
2011	\$ 326,313
2012	326,313
2013	326,313
2014	269,356
2015	242,393
Thereafter	89,647
Total minimum lease payments	<u>1,580,335</u>
Less amount representing interest	<u>(223,189)</u>
Total annual maturities	<u><u>\$ 1,357,146</u></u>

Note 10 - Notes Payable

In connection with facilities expansion as noted in Note 7, the Organization obtained long-term financing. The notes payable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Note payable, bearing interest at 0.8143%, due in monthly interest-only payments of \$2,602 until November 1, 2017 at which time a principal payment of \$3,652,600 will be due. Beginning December 1, 2017, monthly interest-only payments of \$124 will be due, with a balloon payment of \$182,000 due on December 10, 2024. Collateralized by \$3,117,661 of cash held in investments.	\$ 3,834,600	\$ -
Note payable due in monthly principal payments of \$22,889, plus interest at LIBOR plus 2.75%, subject to a floor of 4.50%, with a balloon payment being due October 28, 2012. Collateralized by property.	<u>2,959,778</u>	<u>-</u>
	6,794,378	-
Less current portion	<u>(274,667)</u>	<u>-</u>
	<u><u>\$ 6,519,711</u></u>	<u><u>\$ -</u></u>

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

Minimum future principal payments are as follows at June 30, 2010:

<u>Years Ending June 30,</u>	
2011	\$ 274,667
2012	274,667
2013	2,410,444
2014	-
2015	-
Thereafter	<u>3,834,600</u>
	<u>\$ 6,794,378</u>

Note 11 - Related Party Transactions

In 2009, the Organization utilized an insurance agency whose president at the time was a member of the Board of Directors of the Food Bank. Insurance premiums brokered by this agency totaled approximately \$283,800 for the year ended June 30, 2009.

Note 12 - Leases

The Organization leases office equipment and a building in Flagstaff, Arizona under operating lease agreements that expire through October 2013. Minimum future payments under these non-cancelable operating leases as of June 30, 2010 are as follows:

<u>Years Ending June 30,</u>	
2011	\$ 199,410
2012	201,849
2013	204,360
2014	<u>42,366</u>
Total minimum future rental payments	<u>\$ 647,985</u>

In the normal course of business, operating leases are generally renewed or replaced by other leases. Total rental expense for operating leases with terms in excess of one month was approximately \$197,000 for 2010 and \$157,000 for 2009.

Note 13 - Employee Benefit Plan

The Food Bank sponsors a 401(k) retirement plan, which covers all employees who meet specified age and service requirements. An employee may contribute funds to the plan up to IRS limits and the Food Bank matches 100% of the employee's contribution up to 3% of their compensation. The Food Bank's matching contributions to the plan were \$102,996 for 2010 and \$92,287 for 2009.

Note 14 - Board Designated Unrestricted Net Assets

The board of directors has designated portions of the unrestricted net assets as an operating reserve.

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	2010	2009
Capital campaign receivables	\$ 2,055,472	\$ 2,917,938
Cash restricted to investment in long-term purposes	-	452,067
Construction in progress	3,161,293	308,044
Cash restricted for purchase of property and equipment	8,760	8,760
Eisenhower charitable trust	18,667	18,667
Purpose restrictions		
Community Kitchen	33,788	30,136
Affordable living houses	42,755	42,755
	\$ 5,320,735	\$ 3,778,367

Note 16 - Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30:

	2010	2009
John L. Allen charitable remainder unitrust	\$ -	\$ 30,096
Robert S. and Esther E. Haldema endowment fund	6,000	6,000
	\$ 6,000	\$ 36,096

In 2010, the John L. Allen charitable remainder unitrust of \$30,096 was dissolved by court order, and its assets distributed.

Permanently restricted net assets consist of funds for which the donors stipulated the principal is to be maintained in perpetuity. The earnings and net appreciation on these funds are unrestricted.

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

Note 17 - Fair Value Measurements

Assets measured at fair value on a recurring basis at June 30, 2010 and 2009 are as follows:

	2010	2009
Unconditional promises to give, net	\$ 2,055,472	\$ 2,917,938
Cash collateral for debt	3,117,661	-
Mutual funds	1,278,324	230,752
Bonds	94,616	114,177
Money market funds	52,402	3,492,710
U.S. government obligations	2,564	39,170
Corporate equities	-	604,267
Certificates of deposit	-	204,000
	\$ 6,601,039	\$ 7,603,014

The related fair values of these assets are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2010				
Unconditional promises to give, net	\$ -	\$ -	\$ 2,055,472	\$ 2,055,472
Cash	3,117,661	-	-	3,117,661
Mutual funds	1,278,324	-	-	1,278,324
Bonds	94,616	-	-	94,616
Money market funds	52,402	-	-	52,402
U.S. government obligations	2,564	-	-	2,564
	\$ 4,545,567	\$ -	\$ 2,055,472	\$ 6,601,039
June 30, 2009				
Unconditional promises to give, net	\$ -	\$ -	\$ 2,917,938	\$ 2,917,938
Money market funds	3,492,710	-	-	3,492,710
Corporate equities	604,267	-	-	604,267
Mutual funds	230,752	-	-	230,752
Certificates of deposit	204,000	-	-	204,000
Bonds	114,177	-	-	114,177
U.S. government obligations	39,170	-	-	39,170
	\$ 4,685,076	\$ -	\$ 2,917,938	\$ 7,603,014

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Unconditional promises to give are recorded at net realizable value if they are expected to be collected within one year and at the discounted future cash flows if they are expected to be collected in more than one year. Investments are stated at fair value based on quoted prices.

Following is a reconciliation of activity for the year ended June 30, 2010 for assets measured at fair value based on significant unobservable (non-market) information.

	Unconditional Promises to Give
Balance, July 1, 2009	\$ 2,917,938
New pledges	1,268,000
Pledge payments and write offs	(2,468,061)
Change in discount	337,595
Balance, June 30, 2010	\$ 2,055,472

Note 18 - Subsequent Events

In August 2010, the Organization closed its Glendale, Arizona facility and transferred that location's operations to the existing Knight Center facility. The move resulted in a loss on abandonment of leasehold improvements of approximately \$333,400.

In October 2010, a severe hail storm caused significant damage to the Organization's facilities and vehicles. As of the date of this report, total costs for repair are estimated to be approximately \$556,000. The Organization expects that all costs will be paid by insurance.

The Organization has evaluated subsequent events through December 21, 2010, which is the date the consolidated financial statements were available to be issued.



Supplemental Information
June 30, 2010

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Consolidating Statement of Financial Position
June 30, 2010

	<u>SMFBA</u>	<u>SMFB Foundation</u>	<u>Consolidating Eliminations</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 4,867,842	\$ 200,394	\$ -	\$ 5,068,236
Inventories	12,212,244	-	-	12,212,244
Program and other receivables, net	592,654	-	-	592,654
Due from SMFB Foundation	1,489,446	-	(1,489,446)	-
Other current assets	246,043	-	-	246,043
Total current assets	<u>19,408,229</u>	<u>200,394</u>	<u>(1,489,446)</u>	<u>18,119,177</u>
Investments	340,144	4,205,423	-	4,545,567
Cash Restricted for Purchase of Equipment	8,760	-	-	8,760
Assets Restricted to Investment in Long-Term Purposes				
Cash	-	-	-	-
Pledges receivable, net	2,055,472	-	-	2,055,472
Construction in progress	3,161,293	-	-	3,161,293
Property and Equipment, net	<u>15,183,053</u>	<u>-</u>	<u>-</u>	<u>15,183,053</u>
	<u>\$ 40,156,951</u>	<u>\$ 4,405,817</u>	<u>\$ (1,489,446)</u>	<u>\$ 43,073,322</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 1,085,694	\$ -	\$ -	\$ 1,085,694
Accrued payroll expenses	150,535	-	-	150,535
Due to St. Mary's Food Bank Alliance	-	1,489,446	(1,489,446)	-
Other accrued liabilities	335,869	-	-	335,869
Unearned revenue	-	-	-	-
Current maturities of gift annuities payable	28,277	-	-	28,277
Current maturities of capital lease obligations	249,045	-	-	249,045
Current maturities of notes payable	-	274,667	-	274,667
Total current liabilities	<u>1,849,420</u>	<u>1,764,113</u>	<u>(1,489,446)</u>	<u>2,124,087</u>
Gift annuities payable, less current maturities	202,733	-	-	202,733
Capital lease obligations, less current maturities	1,108,101	-	-	1,108,101
Notes payable, less current maturities	<u>3,834,600</u>	<u>2,685,111</u>	<u>-</u>	<u>6,519,711</u>
Total liabilities	<u>6,994,854</u>	<u>4,449,224</u>	<u>(1,489,446)</u>	<u>9,954,632</u>
Net Assets				
Unrestricted	23,629,939	(43,407)	-	23,586,532
Board designated	4,205,423	-	-	4,205,423
Total unrestricted	<u>27,835,362</u>	<u>(43,407)</u>	<u>-</u>	<u>27,791,955</u>
Temporarily restricted	5,320,735	-	-	5,320,735
Permanently restricted	6,000	-	-	6,000
Total net assets	<u>33,162,097</u>	<u>(43,407)</u>	<u>-</u>	<u>33,118,690</u>
	<u>\$ 40,156,951</u>	<u>\$ 4,405,817</u>	<u>\$ (1,489,446)</u>	<u>\$ 43,073,322</u>

St. Mary's Food Bank Alliance and St. Mary's Food Bank Foundation
Consolidating Statement of Activities
Year Ended June 30, 2010

	SMFBA	SMFB Foundation	Consolidating Eliminations	Total
Public Support				
Donated surplus food	\$ 105,508,940	\$ -	\$ -	\$ 105,508,940
Community contributions	14,272,163	-	-	14,272,163
Food Value Club	2,075,936	-	-	2,075,936
Governmental reimbursable grants	3,220,272	-	-	3,220,272
Source program	355,011	-	-	355,011
Shared maintenance fees	292,861	-	-	292,861
Kid's Café	140,360	-	-	140,360
Community Kitchen	-	-	-	-
Miscellaneous revenue	34,330	-	-	34,330
Total public support	<u>125,899,873</u>	<u>-</u>	<u>-</u>	<u>125,899,873</u>
Expenses				
Program services				
Distributions	68,308,218	-	-	68,308,218
Emergency Box programs	21,454,023	-	-	21,454,023
Food Value Club	12,810,058	-	-	12,810,058
Kid's Café	1,478,688	-	-	1,478,688
Commodity supplemental food program	13,905,385	-	-	13,905,385
Source distribution	341,402	-	-	341,402
Community Kitchen	378,576	-	-	378,576
	<u>118,676,350</u>	<u>-</u>	<u>-</u>	<u>118,676,350</u>
Supporting services				
Fundraising and communications	2,532,949	-	-	2,532,949
Management and general	1,915,667	42,646	-	1,958,313
Total expenses	<u>123,124,966</u>	<u>42,646</u>	<u>-</u>	<u>123,167,612</u>
Change in Net Assets Before Nonoperating Activities	<u>2,774,907</u>	<u>(42,646)</u>	<u>-</u>	<u>2,732,261</u>
Nonoperating Activities				
Investment interest and dividends	19,524	14,536	-	34,060
Net realized and unrealized losses on investments	35,287	(15,297)	-	19,990
Gain (loss) on sale of property and equipment	(7,758)	-	-	(7,758)
Other income	199,269	-	-	199,269
Total nonoperating activities	<u>246,322</u>	<u>(761)</u>	<u>-</u>	<u>245,561</u>
Change in Net Assets	3,021,229	(43,407)	-	2,977,822
Net Assets, Beginning of Year	<u>30,140,868</u>	<u>-</u>	<u>-</u>	<u>30,140,868</u>
Net Assets, End of Year	<u>\$ 33,162,097</u>	<u>\$ (43,407)</u>	<u>\$ -</u>	<u>\$ 33,118,690</u>