

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS**

Year Ended June 30, 2018

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS**

Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *St. Mary's Food Bank Alliance and SMFB Foundation* (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *St. Mary's Food Bank Alliance and SMFB Foundation* as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited **St. Mary's Food Bank Alliance and SMFB Foundation** 2017 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated January 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

Other Matters

Additional Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities and are not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position or results of operations of the individual entities. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of **St. Mary's Food Bank Alliance's and SMFB Foundation's** internal control over financial reporting and on our tests of their 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **St. Mary's Food Bank Alliance's and SMFB Foundation's** internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

December 7, 2018

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

(with comparative totals at June 30, 2017)

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,420,272	\$ 3,846,385
Inventory	7,599,013	5,073,891
Program and other receivables, net of allowance for doubtful accounts of \$20,000	1,359,504	747,136
Bequests receivable	821,987	1,282,414
Prepaid expenses	<u>94,628</u>	<u>84,183</u>
TOTAL CURRENT ASSETS	16,295,404	11,034,009
INVESTMENTS	16,179,395	15,248,309
PROPERTY AND EQUIPMENT, net	<u>19,063,163</u>	<u>15,908,328</u>
TOTAL ASSETS	<u>\$ 51,537,962</u>	<u>\$ 42,190,646</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 1,654,828	\$ 785,261
Accrued payroll expenses	616,361	585,169
Current maturities of gift annuities payable	29,681	29,681
Current maturities of capital lease obligations	<u>303,392</u>	<u>370,867</u>
TOTAL CURRENT LIABILITIES	2,604,262	1,770,978
GIFT ANNUITIES PAYABLE, less current maturities	237,854	236,740
CAPITAL LEASE OBLIGATIONS, less current maturities	<u>1,213,327</u>	<u>1,516,720</u>
TOTAL LIABILITIES	<u>4,055,443</u>	<u>3,524,438</u>
NET ASSETS		
Unrestricted	31,862,417	26,662,755
Board designated	<u>15,021,627</u>	<u>11,620,452</u>
Total unrestricted	46,884,044	38,283,207
Temporarily restricted	<u>598,475</u>	<u>383,001</u>
TOTAL NET ASSETS	<u>47,482,519</u>	<u>38,666,208</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 51,537,962</u>	<u>\$ 42,190,646</u>

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
SUPPORT AND REVENUES					
Donated surplus food and commodities	\$ 139,330,126	\$ -	\$ -	\$ 139,330,126	\$ 134,275,378
Community contributions	22,854,803	402,374	-	23,257,177	20,042,954
Governmental grants	2,624,872	-	-	2,624,872	2,302,642
Kids Cafe	3,677,696	-	-	3,677,696	3,491,641
Source program	422,535	-	-	422,535	373,149
Shared maintenance fees	103,014	-	-	103,014	127,644
CK Catering	37,231	-	-	37,231	45,711
Forgiveness of debt	-	-	-	-	3,834,600
Investment return	1,225,272	-	-	1,225,272	1,230,326
Miscellaneous and other revenue	251,409	-	-	251,409	198,267
Net assets released from restrictions	<u>186,900</u>	<u>(186,900)</u>	-	-	-
TOTAL SUPPORT AND REVENUES	<u>170,713,858</u>	<u>215,474</u>	-	<u>170,929,332</u>	<u>165,922,312</u>
EXPENSES					
Program services					
Emergency food	86,559,640	-	-	86,559,640	83,119,850
Source distribution	562,237	-	-	562,237	431,443
Child nutrition	4,276,637	-	-	4,276,637	3,777,021
Community kitchen	805,196	-	-	805,196	767,321
Commodity supplemental food program	4,704,789	-	-	4,704,789	4,646,460
Distributions	<u>57,849,315</u>	-	-	<u>57,849,315</u>	<u>58,571,143</u>
Total Program Services	<u>154,757,814</u>	-	-	<u>154,757,814</u>	<u>151,313,238</u>
Supporting services					
Fundraising and communications	4,488,792	-	-	4,488,792	4,180,675
Management and general	<u>2,866,415</u>	-	-	<u>2,866,415</u>	<u>3,068,757</u>
Total Supporting Services	<u>7,355,207</u>	-	-	<u>7,355,207</u>	<u>7,249,432</u>
TOTAL EXPENSES	<u>162,113,021</u>	-	-	<u>162,113,021</u>	<u>158,562,670</u>
CHANGE IN NET ASSETS	8,600,837	215,474	-	8,816,311	7,359,642
NET ASSETS, BEGINNING OF YEAR	<u>38,283,207</u>	<u>383,001</u>	-	<u>38,666,208</u>	<u>31,306,566</u>
NET ASSETS, END OF YEAR	<u>\$ 46,884,044</u>	<u>\$ 598,475</u>	<u>\$ -</u>	<u>\$ 47,482,519</u>	<u>\$ 38,666,208</u>

See Notes to Consolidated Financial Statements

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	Emergency Food	Source Distribution	Child Nutrition	Community Kitchen	CSFP	Agency Distributions	Grocery Rescue and Other Distributions	Total Program Services	Fundraising and Communications	Management and General	Total Expenses
Salaries and related expenses	\$ 3,648,309	\$ 59,361	\$ 1,065,884	\$ 633,587	\$ 199,557	\$ 1,059,673	\$ 1,457,108	\$ 8,123,479	\$ 1,622,697	\$ 1,598,713	\$ 11,345,889
Food purchases	502,518	429,071	2,669,246	19,446	1,028	13,717	21,468	3,656,494	181,685	-	3,838,179
Occupancy costs	467,295	7,603	43,411	3,963	25,567	135,729	186,634	870,202	26	1,863	872,091
Depreciation expense	820,019	13,342	97,926	61,627	44,854	238,179	327,510	1,603,457	-	36,763	1,640,220
Donated food surplus	79,387,521	24,645	80,421	-	4,284,371	17,401,888	35,801,113	136,979,959	-	-	136,979,959
Education and training	9,077	148	949	9,148	496	2,636	3,625	26,079	8,113	12,138	46,330
Fuel	376,121	6,120	59,572	437	20,573	109,247	150,220	722,290	2,405	31	724,726
Insurance	116,380	1,894	6,526	-	6,366	33,803	46,481	211,450	6,500	44,126	262,076
Supplies	814	13	15,890	14,350	45	236	325	31,673	80	8,218	39,971
Other expenses	21,789	355	10,699	34,563	11,274	6,337	8,702	93,719	2,166,096	84,583	2,344,398
Packaging products	261,689	4,258	112,248	710	58,242	86,115	104,517	627,779	29,787	-	657,566
Postage/mail	34	1	2	-	7	10	13	67	79,187	6,985	86,239
Printing	2,215	36	8,525	687	645	643	885	13,636	8,295	590	22,521
Professional fees	3,259	53	7,863	21,140	178	947	1,302	34,742	121,285	233,732	389,759
Rental/lease	465,859	7,922	28,664	1,279	26,630	141,411	194,448	887,213	-	48,665	935,878
Administration	79,595	1,295	9,330	3,585	4,381	23,119	31,790	153,095	237,515	156,567	547,177
Technology	58,183	621	2,141	185	2,089	11,091	15,250	69,560	169	552,129	621,868
Travel	23,253	378	9,496	489	1,272	6,754	9,287	50,929	24,930	19,284	95,143
Vehicle costs	314,710	5,121	47,844	-	17,214	91,409	125,693	601,991	22	-	602,013
Foundation expenses	-	-	-	-	-	-	-	-	-	61,028	61,028
TOTAL FUNCTIONAL EXPENSES	\$ 86,559,640	\$ 562,237	\$ 4,276,637	\$ 805,196	\$ 4,704,789	\$ 19,362,944	\$ 38,486,371	\$ 154,757,814	\$ 4,485,792	\$ 2,866,415	\$ 162,113,021

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Emergency Food	Source Distribution	Child Nutrition	Community Kitchen	CSFP	Agency Distributions	Grocery Rescue and Other Distributions	Total Program Services	Fundraising and Communications	Management and General	Total Expenses
Salaries and related expenses	\$ 3,552,942	\$ 39,629	\$ 955,275	\$ 619,004	\$ 207,374	\$ 1,216,143	\$ 1,390,458	\$ 7,980,825	\$ 1,844,039	\$ 1,665,149	\$ 11,490,013
Food purchases	714,545	344,624	2,196,677	13,445	-	8,881	9,170	3,287,342	-	-	3,287,342
Occupancy costs	444,817	4,961	99,544	6,614	25,988	152,257	174,081	908,262	-	3,221	911,483
Depreciation expense	803,282	8,960	88,713	61,723	46,885	274,957	314,367	1,598,887	-	84,978	1,683,865
Donated food surplus	75,996,111	15,331	58,389	-	4,224,565	17,076,682	36,769,623	134,140,601	-	-	134,140,601
Education and training	13,851	154	2,336	6,812	808	4,741	5,421	34,123	11,390	8,578	54,091
Fuel	284,571	3,174	46,963	286	16,609	97,406	111,368	560,377	3,825	13	564,215
Insurance	137,314	1,532	6,964	-	8,015	47,002	53,739	254,566	6,500	29,356	290,422
Supplies	149	2	19,896	18,495	9	51	58	38,760	108	8,854	47,722
Other expenses	61,021	681	8,280	34,311	6,452	20,886	23,881	155,512	1,848,134	47,788	2,051,434
Packaging products	226,232	2,523	114,430	494	58,101	79,041	88,537	569,358	15,225	-	584,583
Postage/mail	38	1	2	-	2	13	15	71	43,650	5,480	49,201
Printing	4,240	47	10,682	1,843	247	1,451	1,659	20,169	26,987	1,658	48,814
Professional fees	8,210	92	90,754	110	479	2,810	3,213	105,668	105,735	467,560	678,963
Rent/lease	478,465	5,337	22,914	-	27,926	163,774	187,249	885,665	1,560	83,393	970,618
Administration	90,170	1,006	9,450	3,713	5,263	34,072	35,289	178,963	227,718	157,519	564,200
Technology	27,197	303	1,270	17	1,587	9,309	10,643	50,326	900	442,300	493,526
Travel	25,137	280	6,201	412	1,467	8,604	9,838	51,939	44,688	19,137	115,774
Vehicle costs	251,558	2,806	38,181	42	14,683	86,106	98,448	491,824	206	58	492,088
Foundation expenses	-	-	-	-	-	-	-	-	-	43,715	43,715
TOTAL FUNCTIONAL EXPENSES	\$ 83,119,850	\$ 431,443	\$ 3,777,021	\$ 767,321	\$ 4,846,460	\$ 19,284,186	\$ 39,286,957	\$ 151,313,238	\$ 4,180,675	\$ 3,068,757	\$ 158,562,670

See Notes to Consolidated Financial Statements

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,816,311	\$ 7,359,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,640,220	1,683,865
Loss on sale/disposal of property and equipment	1,828	89,521
Forgiveness of debt	-	(3,834,600)
Bad debt expense	-	2,759
Realized and unrealized gains on investments	(705,891)	(762,822)
(Increase) decrease in assets:		
Inventory	(2,525,122)	(72,358)
Program and other receivables	(612,368)	228,962
Promises to give	-	1,506,500
Bequests receivable	460,427	(1,282,414)
Prepaid expenses	(10,445)	8,286
Increase (decrease) in liabilities:		
Accounts payable	32,203	273,329
Accrued payroll expenses	31,192	(406,994)
Gift annuities payable	1,114	(21,836)
Net cash provided by operating activities	7,129,469	4,771,840
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,958,319)	(1,327,976)
Proceeds from sale of equipment	(1,200)	2,150
Purchase of investments	(413,631)	(3,432,518)
Proceeds from sale of investments	188,436	2,167,342
Net cash used in investing activities	(4,184,714)	(2,591,002)
Payments on capital lease obligations	(370,868)	(352,882)
Net cash used in financing activities	(370,868)	(352,882)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,573,887	1,827,956
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,846,385	2,018,429
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,420,272	\$ 3,846,385
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 128,762	\$ 153,451
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Purchase of property and equipment payable in accounts payable at fiscal year end	\$ 837,364	\$ -

See Notes to Consolidated Financial Statements

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies

Nature of Operations - St. Mary's Food Bank Alliance ("St. Mary's"), the world's first food bank, was established in 1967. St. Mary's is a community-based Arizona not-for-profit corporation whose primary mission is to alleviate hunger through advocacy, education, and gathering and distributing food to those in need. St. Mary's is supported by various sources including community donations and government funding. Its main programs include:

- **Emergency Food** - St. Mary's distributes Emergency Food, at no cost, to individuals and families in need. Emergency Food Boxes and supplemental donated items are designed to provide temporary food assistance during times of crisis while a more permanent solution is found.
- **Source Distribution** - Source distribution is a volume-buying service offered by St. Mary's to its partner agency organizations. By purchasing in truckload quantities, St. Mary's is able to procure popular food items, which are not normally available as donations, at wholesale prices and pass the savings on to its agencies.
- **Child Nutrition** - Kid's Cafe continues to be the largest component of St. Mary's Child Nutrition efforts. The Kids Cafe meal-service program provides Arizona children with what is often their last meal of the day. The addition of the weekend Backpack and School Pantry programs has expanded the services offered to school aged children. St. Mary's collaborates with more than 100 schools, community centers, churches and other neighborhood groups to provide more than 6,000 free, healthy meals daily in after-school and summer programs. In addition to the nutritious meals, these programs include recreational components and access to after-school tutoring.
- **Community Kitchen** - The Community Kitchen is a life skills and food service training program for those with barriers to employment. Students gain the skills to get jobs offering livable wages and opportunities for advancement through hands-on food service training as well as classroom studies.
- **Commodity Supplemental Food Program ("CSFP")** - CSFP is a program solely funded by federal funds which works to improve the health of elderly people at least 60 years of age by supplementing their diets with nutritious commodity foods.
- **Agency Distributions** - The Distribution program represents food distribution to St. Mary's partner agencies.
- **Grocery Rescue and Other Distributions** - The vast majority of Grocery Rescue and Other Distributions represents food rescued from retail grocery partners directly by St. Mary's and its partner agencies, totaling approximately \$28,309,000 for the year ended June 30, 2018.

SMFB Foundation (the "Foundation") is a 501(c)(3) entity established to enable the growth of St. Mary's long-term reserves.

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

The significant accounting policies followed by St. Mary's and the Foundation, collectively referred to in these consolidated financial statements as the "Organization", are summarized below:

Basis of presentation - The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding their consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are composed of assets that have been restricted by the donors and contain either time or purpose restrictions. At June 30, 2018 and 2017 the Organization had no permanently restricted net assets.

Prior-year summarized information - The consolidated 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 accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Principles of consolidation - The consolidated financial statements include the accounts of St. Mary's and the Foundation. All significant inter-organization transactions and accounts have been eliminated in consolidation.

Management's use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For purposes of reporting cash flows, cash and cash equivalents include liquid accounts with original maturities of three months or less that are not designated for investment purposes. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC"). Periodically, the Organization maintains cash in its financial institutions in excess of the amounts insured by the FDIC.

Inventory - Donated inventories are stated at the estimated value per pound as determined by 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 net realizable value.

Program and other receivables - Program and other receivables include amounts due from various governmental agencies for program services provided and amounts due from agency partners and are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual receivables. 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 program and other receivables.

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

Bequests - Bequests are recognized as contribution revenue in the period the Organization receives notification the court has found the will of the donor's estate to be valid and all conditions have been substantially met. At June 30, 2018 and 2017, bequests receivable are all due within one year. Management provides for probable uncollectible bequests receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual bequests receivable, if necessary. 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 bequests receivable. At June 30, 2018 and 2017, bequests receivable are deemed by management to be fully collectible; accordingly, and allowance for uncollectible bequests is not considered necessary.

Promises to give - 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 donors, 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, if any, is included in contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management considers promises to give to be collectible in full and, accordingly, an allowance for uncollectible promises to give is not considered necessary. At June 30, 2017, all promises to give were due within one year.

Property and equipment - Purchased property and equipment are valued at cost and donated property and equipment are recorded at fair value at the date of gift to the Organization. Maintenance and repairs are charged to operations when incurred. Generally, property and equipment additions in excess of \$5,000 are capitalized. Depreciation and amortization of property and equipment are computed on a straight-line basis over estimated useful lives which range from of 3 to 31 years for buildings and improvements, 3 to 20 years for furniture, fixtures and equipment, 5 to 8 years for equipment held under capital leases and 3 to 10 years for vehicles. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of long-lived assets - The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges were recorded for years ended June 30, 2018 or 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

Fair value measurements - FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. FASB ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments - The Organization accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities - Investments - Debt and Equity Securities*. Under FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is included in unrestricted net assets unless the associated income or loss is restricted. Declines in the fair value of investments below their cost that are deemed to be other than temporary are reflected as realized losses. There were no declines in fair value of investments below their cost that were deemed to be other than temporary as of and for the years ended June 30, 2018 and 2017.

Risks and uncertainties - The Organization invests in various types of investments which are exposed to a variety of risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the consolidated statement of financial position.

Revenue recognition - Revenues associated with program expenses consist of the agency distributions, the Kid's Cafe program, and the community kitchen and catering program. Distribution revenue is recognized when goods are provided. Revenue from the Kid's Cafe, community kitchen and the catering program is recognized when services are rendered. Contract revenue for program services that is collected in advance is recorded as deferred revenue.

Governmental grants - The Organization recognizes amounts received from governmental grants as earned when services are rendered under unit of service contracts or as allowable costs are incurred under cost reimbursement contracts. A receivable is recorded to the extent the amount earned exceeds cash advances. Conversely, a liability is recorded when cash advances exceed amounts earned.

Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants or contracts. Additionally, if the Organization terminates their activities, all unearned amounts are to be returned to the funding sources.

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(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

Contributions - The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. In accordance with FASB ASC 958-605, 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 or permanently 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 assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and net assets released from restrictions. Restricted support where restrictions are met in the same period as the donation is made is shown as additions to unrestricted support.

Donated food, materials and services - Donated materials are recorded at their estimated fair value as of the date of donation. Donated materials include food, donated rent and discounted leases on transportation equipment.

Donated services are recorded in accordance with FASB ASC 958-605 at their estimated fair value if they (a) create or enhance the Organization's nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization utilizes the services of numerous volunteers to perform a variety of tasks that assist the Organization with specific programs, campaign solicitations, and various committee assignments. During the year ended June 30, 2018, the Organization received the benefit of approximately 213,000 hours from approximately 75,000 volunteers. During the year ended June 30, 2017, the Organization received the benefit of approximately 229,000 hours from approximately 75,000 volunteers. This support has not been recorded as a component of contribution revenue as it does not meet the recognition criteria under FASB ASC 958-605.

Advertising - Advertising costs are expensed as incurred. Advertising expenses totaled \$45,191 and \$56,675, respectively, for the years ended June 30, 2018 and 2017.

Functional expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on appropriate allocation methods. The expense category, management and general, includes those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Organization. Any expenditures not directly chargeable are allocated based on personnel activity, pounds of food distributed or other appropriate indicators.

Income tax status - St. Mary's and the Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes for these organizations. In addition, they qualify for the charitable contribution deduction under Section 170 of the Code and have been classified as organizations that are not private foundations. Income determined to be unrelated business taxable income would be taxable.

St. Mary's and the Foundation evaluate their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2018 and 2017, management believes St. Mary's and the Foundation did not have any uncertain tax positions.

St. Mary's and the Foundation's federal Returns of Organizations Exempt from Income Tax (Form 990) for 2015, 2016, and 2017 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2018 returns had not yet been filed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

Recent accounting pronouncements - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to clarify current accounting guidance about whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The update is intended to be applied on a modified prospective basis, but retrospective application is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. ASU 2016-02 is effective for fiscal year beginning after December 15, 2019. Early adoption is permitted. The Organization has estimated that if they were to adopt ASU 2016-02 for the year ended June 30, 2018, a non-current right of use asset of approximately \$514,000 and a corresponding current and non-current lease liability of approximately \$113,000 and \$401,000, respectively, would be recorded in the accompanying consolidated statement of financial position as of June 30, 2018. The estimate was calculated using the minimum future lease payments (See Note 11) and a discount rate of 3.23% representing the Organization's estimated incremental borrowing rate.

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Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in the consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Organization is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

Subsequent events - The Organization has evaluated events through December 7, 2018, which is the date the consolidated financial statements were available to be issued.

(2) Concentrations of credit risk

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank accounts, which at times may exceed federally insured limits.

The Organization also maintains cash in accounts with investment firms. The accounts contain cash and securities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation ("SIPC"). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Of the program and other receivables at June 30, 2018 and 2017, 49% and 96%, respectively, are due from departments within the State of Arizona, and 32% is due from a single donor at June 30, 2018. Concentrations of credit risk with respect to these receivables are limited due to the nature of the receivables and the collection history with this funding source. The Organization requires no collateral on its program and other receivables.

Of the bequests receivable at June 30, 2018 and 2017, 47% and 93%, respectively, are due from two donors.

Of the program revenues, which include Kid's Cafe, source program, shared maintenance fees, and CK catering, during the years ended June 30, 2018 and 2017, 87% and 86%, respectively, are related to the Kids Cafe program which is funded by the Arizona Department of Education through the U.S. Department of Agriculture.

Of donated food revenues during the years ended June 30, 2018 and 2017, 24% and 34%, respectively, was donated from 2 organizations.

(3) Inventory

Inventory consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Donated food inventory	\$ 4,741,842	\$ 3,956,892
Government food	2,390,467	825,249
Purchased food inventory	452,302	276,558
Other inventory	<u>14,402</u>	<u>15,192</u>
Total cost and donated value	<u>\$ 7,599,013</u>	<u>\$ 5,073,891</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(3) Inventory (continued)

The Organization receives donated food from various private and public sources. In order to provide a measurable basis for evaluating the primary mission of the Organization, management values food for purposes of including donated and distributed food as components of the accompanying consolidated financial statements. For the years ended June 30, 2018 and 2017, donated food of approximately 88,640,000 pounds and 88,600,000 pounds, respectively, valued at a composite price of \$1.57 and \$1.52 per pound, respectively, is reflected in the accompanying consolidated statements of activities as donated surplus food and commodities. 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 activities within program services expense.

(4) Investments and fair value of financial instruments

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2018:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:			
Cash and money market funds	\$ 76,284	\$ -	\$ -
Mutual funds:			
Large cap equity	2,429,389	-	-
Small cap equity	726,995	-	-
Other equity	614,683	-	-
Fixed income	2,202,278	-	-
Other	885,793	-	-
Fixed income:			
Corporate bonds	-	702,219	-
Government bonds	-	906,798	-
Other	-	286,720	-
Exchange traded funds	<u>7,348,236</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 14,283,658</u>	<u>\$ 1,895,737</u>	<u>\$ -</u>

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2017:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:			
Cash and money market funds	\$ 296,696	\$ -	\$ -
Mutual funds:			
Large cap equity	2,131,147	-	-
Small cap equity	1,048,543	-	-
Other equity	784,231	-	-
Fixed income	2,897,248	-	-
Other	1,673,604	-	-
Fixed income:			
Corporate bonds	-	443,834	-
Government bonds	-	291,315	-
Foreign bonds	-	38,989	-
Other	-	160,180	-
Exchange traded funds	<u>5,482,522</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 14,313,991</u>	<u>\$ 934,318</u>	<u>\$ -</u>

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Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(4) Investments and fair value of financial instruments (continued)

Investment return is summarized as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 519,381	\$ 467,504
Unrealized investment gains	639,607	29,155
Realized investment gains	<u>66,284</u>	<u>733,667</u>
Total investment return	<u>\$ 1,225,272</u>	<u>\$ 1,230,326</u>

Investment fees in the amount of \$76,442 and \$56,060, respectively, for the years ended June 30, 2018 and 2017 are included in other expenses on the accompanying consolidated statements of functional expenses.

(5) Split interest agreements

The Organization currently administers charitable gift annuities that provide an annual income payment to the beneficiaries until the income obligation is completed in accordance with the donor's trust agreement. The assets contributed under the charitable gift annuities are carried at fair value. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using a risk-free discount rate determined at the time the annuities are established, and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. As of June 30, 2018 and 2017, the present value of the annuity payment liability is \$267,535 and \$266,421, respectively. To calculate the present value of the charitable gift annuity, management used the applicable federal rate of approximately 6%. Charitable gift annuities are estimated to mature through 2059. Assets of the Organization that are reserved for charitable gift annuities totaled \$529,082 and \$471,478 at June 30, 2018 and 2017, respectively, and are included within investments in the accompanying consolidated statements of financial position.

(6) Property and equipment

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,202,865	\$ 2,202,865
Buildings and improvements	17,836,486	17,701,305
Furniture, fixtures and equipment	4,194,926	4,650,848
Vehicles	1,694,185	1,548,761
Equipment held under capital leases	<u>2,673,641</u>	<u>2,673,641</u>
	28,602,103	28,777,420
Accumulated depreciation and amortization	<u>(14,064,813)</u>	<u>(13,048,014)</u>
	14,537,290	15,729,406
Construction in progress	<u>4,525,873</u>	<u>178,922</u>
Property and equipment, net	<u>\$ 19,063,163</u>	<u>\$ 15,908,328</u>

Depreciation expense charged to operations was \$1,640,220 and \$1,683,865, respectively, for the years ended June 30, 2018 and 2017.

Construction in progress at June 30, 2018 and 2017 relates to renovations and improvements to the Organization's primary warehouse and office and was completed and placed in service in October 2018. The total remaining cost of the project at June 30, 2018 was approximately \$430,000 and was funded through the use of operating cash and investments.

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Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(7) Line of credit

The Organization maintains a line of credit with a bank that bears interest at the greater of the lender's prime rate or 4%. The line of credit had an original maturity date of February 1, 2018. Effective September 25, 2017, the Organization amended the line of credit agreement with a bank increasing the available balance from \$1,000,000 to \$4,200,000 and modifying the interest rate to equal the one month London Interbank Offered Rate ("LIBOR") published by ICE Benchmark Administration Limited plus 1.25% (3.23% at June 30, 2018). The line of credit is secured by the Organization's inventory, accounts and equipment and now matures on April 1, 2019. There was no outstanding balance or activity on this line of credit as of and for the years ended June 30, 2018 and 2017. The line of credit is subject to certain nonfinancial covenants.

(8) Long-term debt

The Organization had a note payable with an outstanding balance of \$3,834,600 which bore interest at 0.8143% and was due in monthly interest-only payments of \$2,602 until November 1, 2017 at which time a principal payment of \$3,652,600 was due. Beginning December 1, 2017, monthly interest-only payments would be \$124 with a balloon payment of \$182,000 due on December 10, 2024. The note was collateralized by approximately \$1,300,000 of cash held in investments. The Organization also entered into an agreement that included a loan forgiveness provision triggered by a put option of \$1,000 that was available to be exercised. In December 2016, the Organization exercised its put option and the loan was forgiven. As a result of this transaction, the Organization recognized revenue from debt forgiveness of \$3,834,600 for the year ended June 30, 2017.

(9) Capital lease obligations

The Organization has entered into capital leases for vehicles and other equipment. These leases expire at various periods through March 2024. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum future lease payments or the fair value of the assets. Amortization expense under these capital leases is included in depreciation expense. Interest rates on these capital leases vary from 4.73 to 5.64%.

The following is a summary of assets held under capital leases at June 30:

	2018	2017
Vehicle and other equipment	\$ 2,673,641	\$ 2,673,641
Accumulated depreciation and amortization	(1,251,710)	(866,948)
Assets held under capital leases, net	\$ 1,421,931	\$ 1,806,695

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Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(9) Capital lease obligations (continued)

Future minimum lease payments under these capital leases are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 405,308
2020	397,635
2021	397,635
2022	337,049
2023	190,323
Thereafter	<u>141,127</u>
Total minimum lease payments	\$ 1,869,077
Less amounts representing interest	<u>(352,358)</u>
Present value of minimum lease payments	1,516,719
Current maturities	<u>(303,392)</u>
Noncurrent maturities	<u>\$ 1,213,327</u>

Interest expense related to the long-term debt in Note 8 and capital leases above totaled approximately \$129,000 and \$153,000, respectively, for the years ended June 30, 2018 and 2017.

(10) Net assets

Unrestricted net assets include board designated assets that have been set aside by the Board of Directors for purposes of establishing an operating reserve. The board designated net assets are held in investment accounts by the Foundation and total \$15,021,627 and \$11,620,452, respectively, as of June 30, 2018 and 2017.

Temporarily restricted net assets are available for the following restricted purposes as of June 30:

	<u>2018</u>	<u>2017</u>
Time restrictions	\$ 18,667	\$ 20,667
Purpose restrictions	<u>579,808</u>	<u>362,334</u>
Total temporarily restricted net assets	<u>\$ 598,475</u>	<u>\$ 383,001</u>

Temporarily restricted net assets released from restriction during the year ended June 30, 2018 are as follows:

Time restrictions	\$ 2,000
Purpose restrictions	<u>184,900</u>
Total temporarily restricted net assets released from restriction	<u>\$ 186,900</u>

During the year ended June 30 2017, a previously permanently restricted endowment donation totaling \$6,000 was released from restriction.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(11) Operating leases

The Organization leases office equipment and office space under operating lease agreements that expire through July 2024. Future minimum payments under these non-cancelable operating leases as of June 30, 2018 are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 116,279
2020	119,938
2021	114,858
2022	100,821
2023	103,845
Thereafter	<u>8,654</u>
Total minimum lease payments	<u>\$ 564,395</u>

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases.

Total rental expense under these leases as well as short term vehicle leases was approximately \$1,031,000 and \$1,114,000, respectively, for the years ended June 30, 2018 and 2017.

Additionally, the Organization entered into an agreement in September 1998 to receive donated office and warehouse facilities from an unrelated party in Surprise, Arizona. The lease automatically renews annually and can be terminated by either party. The space has an estimated fair value of \$.50 per square foot. For the years ended June 30, 2018 and 2017, the Organization recognized an in-kind contribution of \$173,526 related to this donated space which is included in community contributions in the accompanying consolidated statement of activities.

(12) Retirement plan

The Organization participates in a qualified 401(k) defined contribution retirement plan (the "Plan") for eligible employees. Subsequent to the employee completing 3 months of employment with the Organization and the employee being 21 years of age, an employee is eligible to participate in the plan. Contributions are based on a percentage of salary. The Organization has a discretionary match policy and the Organization elects on an annual basis what percentage to match of the employee contributions made to the plan. Contributions to the Plan under this arrangement were \$208,958 and \$182,686, respectively, for the years ended June 30, 2018 and 2017.

Effective January 1, 2018, employees are eligible to participate in the Plan after 30 days of employment and are automatically enrolled at a 5% elective deferral rate. Additionally, employees receive an employer match of the first 3% of their eligible pay contributed to the Plan and 50% of the next 2% of their eligible pay contributed to the Plan.

(13) Contingencies

Periodically, the Organization is involved in litigation and claims arising in the normal course of operations. In the opinion of management and based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

ADDITIONAL INFORMATION

**ST. MARY'S FOOD BANK ALLIANCE
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ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

	<u>St. Mary's</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,886,608	\$ 2,533,664	\$ -	\$ 6,420,272
Inventory	7,599,013	-	-	7,599,013
Program and other receivables, net of allowance for doubtful accounts of \$20,000	1,359,504	-	-	1,359,504
Bequests receivable	821,987	-	-	821,987
Due from affiliate	3,609,193	-	(3,609,193)	-
Prepaid expenses	94,628	-	-	94,628
TOTAL CURRENT ASSETS	<u>17,370,933</u>	<u>2,533,664</u>	<u>(3,609,193)</u>	<u>16,295,404</u>
INVESTMENTS	3,691,432	12,487,963	-	16,179,395
PROPERTY AND EQUIPMENT, net	<u>19,063,163</u>	<u>-</u>	<u>-</u>	<u>19,063,163</u>
TOTAL ASSETS	<u>\$ 40,125,528</u>	<u>\$ 15,021,627</u>	<u>\$ (3,609,193)</u>	<u>\$ 51,537,962</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable	\$ 1,654,828	\$ -	\$ -	\$ 1,654,828
Accrued payroll expenses	616,361	-	-	616,361
Due to affiliate	-	3,609,193	(3,609,193)	-
Current maturities of gift annuities payable	29,681	-	-	29,681
Current maturities of capital lease obligations	303,392	-	-	303,392
TOTAL CURRENT LIABILITIES	<u>2,604,262</u>	<u>3,609,193</u>	<u>(3,609,193)</u>	<u>2,604,262</u>
GIFT ANNUITIES PAYABLE, less current maturities	237,854	-	-	237,854
CAPITAL LEASE OBLIGATIONS, less current maturities	<u>1,213,327</u>	<u>-</u>	<u>-</u>	<u>1,213,327</u>
TOTAL LIABILITIES	<u>4,055,443</u>	<u>3,609,193</u>	<u>(3,609,193)</u>	<u>4,055,443</u>
NET ASSETS				
Unrestricted	20,449,983	11,412,434	-	31,862,417
Board designated	15,021,627	-	-	15,021,627
Total unrestricted	<u>35,471,610</u>	<u>11,412,434</u>	<u>-</u>	<u>46,884,044</u>
Temporarily restricted	598,475	-	-	598,475
TOTAL NET ASSETS	<u>36,070,085</u>	<u>11,412,434</u>	<u>-</u>	<u>47,482,519</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,125,528</u>	<u>\$ 15,021,627</u>	<u>\$ (3,609,193)</u>	<u>\$ 51,537,962</u>

See Independent Auditors' Report

**ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION**

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	<u>St. Mary's</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
SUPPORT AND REVENUES				
Donated surplus food and commodities	\$ 139,330,126	\$ -	\$ -	\$ 139,330,126
Community contributions	23,257,177	-	-	23,257,177
Governmental grants	2,624,872	-	-	2,624,872
Kids Cafe	3,677,696	-	-	3,677,696
Source program	422,535	-	-	422,535
Shared maintenance fees	103,014	-	-	103,014
CK Catering	37,231	-	-	37,231
Investment return	756,758	1,158,514	(690,000)	1,225,272
Miscellaneous and other revenue	251,409	-	-	251,409
TOTAL SUPPORT AND REVENUES	<u>170,460,818</u>	<u>1,158,514</u>	<u>(690,000)</u>	<u>170,929,332</u>
EXPENSES				
Program services				
Emergency food	86,559,640	-	-	86,559,640
Source distribution	562,237	-	-	562,237
Child nutrition	4,276,637	-	-	4,276,637
Community kitchen	805,196	-	-	805,196
Commodity supplemental food program	4,704,789	-	-	4,704,789
Distributions	57,849,315	-	-	57,849,315
Total Program Services	<u>154,757,814</u>	<u>-</u>	<u>-</u>	<u>154,757,814</u>
Supporting services				
Fundraising and communications	4,488,792	-	-	4,488,792
Management and general	2,805,387	751,028	(690,000)	2,866,415
Total Supporting Services	<u>7,294,179</u>	<u>751,028</u>	<u>(690,000)</u>	<u>7,355,207</u>
TOTAL EXPENSES	<u>162,051,993</u>	<u>751,028</u>	<u>(690,000)</u>	<u>162,113,021</u>
CHANGE IN NET ASSETS	8,408,825	407,486	-	8,816,311
NET ASSETS, BEGINNING OF YEAR	<u>27,661,260</u>	<u>11,004,948</u>	<u>-</u>	<u>38,666,208</u>
NET ASSETS, END OF YEAR	<u>\$ 36,070,085</u>	<u>\$ 11,412,434</u>	<u>\$ -</u>	<u>\$ 47,482,519</u>

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