



ST MARY'S FOOD BANK ALLIANCE  
AND SMFB FOUNDATION

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

Financial Statements and Uniform Guidance  
Supplementary Reports

Years Ended June 30, 2016 and 2015

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
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 (nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 opinions.

## **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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Other 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 and are not a required part of the consolidated financial statements. 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 January 18, 2017, 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 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 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.

Henry + Horne, LLP

Tempe, Arizona  
January 18, 2017



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,018,429	\$ 2,901,051
Inventory	5,001,533	4,552,120
Program and other receivables, net of allowance for doubtful accounts of \$20,000	976,857	666,092
Promises to give, current portion	1,508,500	39,890
Prepaid expenses	<u>92,469</u>	<u>88,187</u>
TOTAL CURRENT ASSETS	9,597,788	8,247,340
INVESTMENTS	13,220,311	13,417,221
PROPERTY AND EQUIPMENT, net	<u>16,355,888</u>	<u>16,051,943</u>
TOTAL ASSETS	<u>\$ 39,173,987</u>	<u>\$ 37,716,504</u>

See accompanying notes.



	<u>2016</u>	<u>2015</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 511,932	\$ 325,591
Accrued payroll expenses	992,163	777,076
Current maturities of gift annuities payable	29,681	31,474
Current maturities of capital lease obligations	<u>352,884</u>	<u>300,442</u>
TOTAL CURRENT LIABILITIES	1,886,660	1,434,583
GIFT ANNUITIES PAYABLE, less current maturities	258,576	264,168
CAPITAL LEASE OBLIGATIONS, less current maturities	1,887,585	1,080,200
NOTES PAYABLE	<u>3,834,600</u>	<u>3,834,600</u>
TOTAL LIABILITIES	<u>7,867,421</u>	<u>6,613,551</u>
NET ASSETS		
Unrestricted	21,002,855	20,680,835
Board designated	<u>9,756,371</u>	<u>9,886,066</u>
Total unrestricted	30,759,226	30,566,901
Temporarily restricted	541,340	530,052
Permanently restricted	<u>6,000</u>	<u>6,000</u>
TOTAL NET ASSETS	<u>31,306,566</u>	<u>31,102,953</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,173,987</u>	<u>\$ 37,716,504</u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2016 and 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>				
Donated surplus food and commodities	\$120,079,472	\$ -	\$ -	\$ 120,079,472
Community contributions	17,387,209	388,885	-	17,776,094
Governmental grants	1,907,415	-	-	1,907,415
Kids Cafe	3,147,487	-	-	3,147,487
Source program	602,625	-	-	602,625
Shared maintenance fees	191,727	-	-	191,727
CK Catering	50,332	-	-	50,332
Investment return	(119,174)	3,255	-	(115,919)
Miscellaneous and other revenue	182,413	-	-	182,413
Net assets released from restrictions	380,852	(380,852)	-	-
<b>TOTAL REVENUE</b>	<b>143,810,358</b>	<b>11,288</b>	<b>-</b>	<b>143,821,646</b>
<b>EXPENSES</b>				
Program services				
Emergency food	83,487,289	-	-	83,487,289
Source distribution	766,652	-	-	766,652
Child nutrition	3,187,626	-	-	3,187,626
Community kitchen	801,987	-	-	801,987
Commodity supplemental food program	4,964,137	-	-	4,964,137
Distributions	43,254,432	-	-	43,254,432
<b>TOTAL PROGRAM SERVICES</b>	<b>136,462,123</b>	<b>-</b>	<b>-</b>	<b>136,462,123</b>
Supporting services				
Fundraising and communications	4,009,951	-	-	4,009,951
Management and general	3,145,959	-	-	3,145,959
<b>TOTAL SUPPORTING SERVICES</b>	<b>7,155,910</b>	<b>-</b>	<b>-</b>	<b>7,155,910</b>
<b>TOTAL EXPENSES</b>	<b>143,618,033</b>	<b>-</b>	<b>-</b>	<b>143,618,033</b>
<b>CHANGE IN NET ASSETS</b>	<b>192,325</b>	<b>11,288</b>	<b>-</b>	<b>203,613</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>30,566,901</b>	<b>530,052</b>	<b>6,000</b>	<b>31,102,953</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 30,759,226</b>	<b>\$ 541,340</b>	<b>\$ 6,000</b>	<b>\$ 31,306,566</b>

See accompanying notes.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 102,447,221	\$ -	\$ -	\$ 102,447,221
14,919,542	440,514	-	15,360,056
2,293,966	-	-	2,293,966
2,882,972	-	-	2,882,972
632,611	-	-	632,611
225,509	-	-	225,509
49,329	-	-	49,329
468	4,958	-	5,426
227,793	-	-	227,793
102,656	(102,656)	-	-
<u>123,782,067</u>	<u>342,816</u>	<u>-</u>	<u>124,124,883</u>
30,736,979	-	-	30,736,979
725,295	-	-	725,295
2,698,392	-	-	2,698,392
737,452	-	-	737,452
5,113,313	-	-	5,113,313
79,911,015	-	-	79,911,015
<u>119,922,446</u>	<u>-</u>	<u>-</u>	<u>119,922,446</u>
3,150,613	-	-	3,150,613
2,844,628	-	-	2,844,628
<u>5,995,241</u>	<u>-</u>	<u>-</u>	<u>5,995,241</u>
<u>125,917,687</u>	<u>-</u>	<u>-</u>	<u>125,917,687</u>
(2,135,620)	342,816	-	(1,792,804)
<u>32,702,521</u>	<u>187,236</u>	<u>6,000</u>	<u>32,895,757</u>
<u>\$ 30,566,901</u>	<u>\$ 530,052</u>	<u>\$ 6,000</u>	<u>\$ 31,102,953</u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2016

	<u>Emergency Food</u>	<u>Source Distribution</u>	<u>Child Nutrition</u>	<u>Community Kitchen</u>	<u>CSFP</u>
Salaries and related expenses	\$ 3,599,882	\$ 68,645	\$ 840,477	\$ 628,102	\$ 231,354
Food purchases	710,958	636,540	1,863,850	19,239	6,653
Occupancy costs	549,907	10,486	39,210	18,621	35,341
Depreciation	781,933	14,910	86,733	62,476	50,252
Donated food surplus	76,417,821	8,863	15,460	-	4,496,424
Education and training	7,283	139	2,340	15,813	468
Fuel	227,621	4,340	42,036	390	14,629
Insurance	128,853	2,457	6,077	-	8,281
Supplies	331	6	22,099	10,770	21
Other expenses	10,006	191	1,829	36,360	4,020
Packaging products	257,282	4,906	133,345	494	65,575
Postage/mail	43	1	12	(1)	3
Printing	3,555	68	1,086	1,185	228
Professional fees	5,639	108	52,321	-	362
Rental/lease	387,369	7,387	18,613	-	24,895
Administration	85,237	1,625	7,034	5,654	5,478
Technology	20,926	399	986	56	1,345
Travel	20,575	393	5,088	2,828	1,322
Vehicle costs	272,068	5,188	49,030	-	17,486
Foundation expenses	-	-	-	-	-
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 83,487,289</u></b>	<b><u>\$ 766,652</u></b>	<b><u>\$ 3,187,626</u></b>	<b><u>\$ 801,987</u></b>	<b><u>\$ 4,964,137</u></b>

<u>Agency Distributions</u>	<u>Other Distributions</u>	<u>Total Programs</u>	<u>Fundraising &amp; Communications</u>	<u>General Administration</u>	<u>Total Expenses</u>
\$ 969,874	\$ 1,222,362	\$ 7,560,696	\$ 1,795,398	\$ 1,795,252	\$ 11,151,346
263,311	326,297	3,826,848	-	-	3,826,848
148,155	186,724	988,444	2,968	407	991,819
210,668	265,511	1,472,483	-	134,259	1,606,742
15,200,080	23,587,909	119,726,557	-	-	119,726,557
1,963	2,473	30,479	4,353	16,249	51,081
61,325	77,290	427,631	2,854	596	431,081
34,715	43,753	224,136	6,500	23,549	254,185
89	112	33,428	-	12,106	45,534
2,824	3,398	58,628	1,737,918	55,410	1,851,956
73,829	87,362	622,793	45,821	-	668,614
11	14	83	18,542	8,196	26,821
958	1,207	8,287	15,189	1,132	24,608
1,519	1,915	61,864	105,666	367,992	535,522
104,364	131,533	674,161	42,938	77,585	794,684
22,988	28,943	156,959	191,868	178,471	527,298
5,638	7,107	36,457	-	411,525	447,982
5,543	6,986	42,735	38,145	27,870	108,750
73,300	92,382	509,454	1,791	51	511,296
-	-	-	-	35,309	35,309
<u>\$ 17,181,154</u>	<u>\$ 26,073,278</u>	<u>\$ 136,462,123</u>	<u>\$ 4,009,951</u>	<u>\$ 3,145,959</u>	<u>\$ 143,618,033</u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2015

	Emergency Food	Source Distribution	Child Nutrition	Community Kitchen	CSFP
Salaries and related expenses	\$ 1,414,478	\$ 76,899	\$ 814,048	\$ 578,989	\$ 233,277
Food purchases	482,401	574,607	1,544,071	14,110	3,320
Occupancy costs	160,095	8,704	28,394	4,722	26,536
Depreciation	316,300	17,196	81,874	71,113	52,164
Donated food surplus	27,879,916	21,588	244	-	4,654,285
Education and training	4,137	225	451	10,652	682
Fuel	122,585	6,664	50,046	395	20,217
Insurance	57,464	3,124	6,262	-	9,477
Supplies	128	7	8,524	14,010	21
Other expenses	6,407	348	1,600	35,189	4,967
Packaging products	97,208	5,285	101,377	1,078	76,065
Postage/mail	27	1	3	-	5
Printing	683	37	104	1,945	113
Professional fees	1,087	59	8,850	343	179
Rental/lease	40,802	2,218	7,240	-	6,729
Administration	3,611	197	467	520	596
Interest	18,124	985	2,340	2,604	2,989
Technology	17,422	947	1,898	429	2,873
Travel	11,383	619	2,165	1,113	1,877
Vehicle costs	102,721	5,585	38,434	240	16,941
Foundation expenses	-	-	-	-	-
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 30,736,979</b>	<b>\$ 725,295</b>	<b>\$ 2,698,392</b>	<b>\$ 737,452</b>	<b>\$ 5,113,313</b>

<u>Agency Distributions</u>	<u>Other Distributions</u>	<u>Total Programs</u>	<u>Fundraising &amp; Communications</u>	<u>General Administration</u>	<u>Total Expenses</u>
\$ 1,070,619	\$ 2,760,155	\$ 6,948,465	\$ 1,344,138	\$ 1,585,204	\$ 9,877,807
210,870	676,179	3,505,558	-	-	3,505,558
121,176	312,403	662,030	1,941	2,863	666,834
239,408	617,216	1,395,271	-	148,901	1,544,172
20,440,462	52,151,512	105,148,007	-	-	105,148,007
3,131	8,072	27,350	9,387	19,302	56,039
92,784	239,207	531,898	1,933	1,266	535,097
43,494	112,132	231,953	6,500	22,488	260,941
857	250	23,797	130	6,232	30,159
4,845	12,500	65,856	1,376,706	86,838	1,529,400
73,577	189,688	544,278	31,347	-	575,625
21	53	110	32,587	27,949	60,646
517	1,334	4,733	15,266	946	20,945
823	2,121	13,462	78,706	170,558	262,726
30,883	79,619	167,491	1,310	79,107	247,908
2,739	7,048	15,178	224,238	135,551	374,967
13,745	35,366	76,153	-	15,242	91,395
13,187	33,997	70,753	-	477,175	547,928
8,616	22,212	47,985	26,424	21,525	95,934
77,750	200,447	442,118	-	14	442,132
-	-	-	-	43,467	43,467
<u>\$ 22,449,504</u>	<u>\$ 57,461,511</u>	<u>\$ 119,922,446</u>	<u>\$ 3,150,613</u>	<u>\$ 2,844,628</u>	<u>\$ 125,917,687</u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	203,613	(1,792,804)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,606,742	1,544,172
(Gain) loss on disposal of assets	(500)	7,799
Forgiveness of long-term debt	-	(169,000)
Change in discount on promises to give	-	(3,163)
Bad debt expense	25,915	33
Realized and unrealized losses on investments	595,605	353,233
(Increase) decrease in assets:		
Inventory	(449,413)	2,737,738
Program and other receivables	(310,790)	62,887
Promises to give	(1,494,500)	22,628
Prepaid expenses	(4,282)	140,691
Increase (decrease) in liabilities:		
Accounts payable	186,341	(211,647)
Accrued payroll expenses	215,087	127,855
Gift annuities payable	(7,385)	(1,108)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>566,433</u>	<u>2,819,314</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment and construction in progress	(626,303)	(1,205,301)
Proceeds from sale of equipment	500	22,000
Purchase of investments	(12,296,920)	(3,324,701)
Proceeds from sale of investments	11,898,225	715,201
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>(1,024,498)</u>	<u>(3,792,801)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(424,557)	(218,450)
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<u>(424,557)</u>	<u>(218,450)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(882,622)	(1,191,937)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,901,051</u>	<u>4,092,988</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 2,018,429</u></u>	<u><u>\$ 2,901,051</u></u>

See accompanying notes.



SUPPLEMENTAL DISCLOSURE OF CASH FLOW	<u>2016</u>	<u>2015</u>
Cash paid for interest expense	<u>\$ 129,276</u>	<u>\$ 91,395</u>
Purchase of equipment through capital lease obligations	<u>\$ 1,284,384</u>	<u>\$ 833,954</u>



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

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 recent 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 funded solely 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.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

- **Agency Distributions** - The Distribution program represents food distribution to St. Mary's partner agencies.
- **Other Distributions** - The vast majority of Other Distributions represents food rescued from retail grocery partners directly by St. Mary's and its partner agencies.

SMFB Foundation (the "Foundation") is a 501(c)(3) entity established to facilitate the New Market Tax Credit financing and to provide a platform from which to enable the growth of St. Mary's long-term reserves.

Consolidation

The consolidated financial statements include the accounts of St. Mary's Food Bank Alliance and SMFB Foundation (collectively, the "Organization"). All significant inter-organization transactions and accounts have been eliminated in consolidation.

Basis of Accounting and Financial Statement Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

The Organization reports 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. Temporarily restricted net assets are composed of assets that have been restricted by the donors and contain either time or purpose restrictions.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts are included as investments instead of cash.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

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 market value.

Program and Other Receivables

Program and other receivables include amounts due from various state agencies for program services provided and amounts due from customers for food and are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. The Organization evaluates the collectability of its program and other receivables based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. 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 recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contribution support. Management considers promises to give to be collectible in full and, accordingly, an allowance for uncollectible promises to give is not considered necessary.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful life.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. 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.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Impairment of Long-Lived Assets

Long-lived assets are 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 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Fair Value Measurements

Accounting Standards establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.                                                                                                                                                                                                                                                                                                             |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> |

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Fair Value Measurements (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

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

Investments are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized and unrealized gains and losses) is included in the change in unrestricted net assets in the accompanying consolidated statements of activities, unless the income or loss is restricted by donor or law.

Risks and Uncertainties

The Organization invests in various types of investments which are exposed to various 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

Program service revenues consist of the source 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.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Contributions

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 or permanently restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. It is the Organization's policy to record temporarily restricted contributions that are released from restriction in the same period received as unrestricted contributions in that period.

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair values in the period received. In-kind donations include food, donated rent and discounted leases on warehouse equipment. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation services, are recorded at their fair market values in the period received.

The Organization utilizes the services of numerous volunteers who support the programs and activities of the organization. During the year ended June 30, 2016, the Organization received the benefit of approximately 273,000 hours from approximately 87,000 volunteers. During the year ended June 30, 2015, the Organization received the benefit of approximately 240,000 hours from approximately 91,000 volunteers. This support has not been recorded in the accompanying consolidated financial statements as it does not meet the recognition criteria.

Advertising

Advertising costs are charged to operations as incurred. Advertising expense charged to operations amounted to \$49,062 and \$35,975 for the years ended June 30, 2016 and 2015, respectively.

Functional Expenses

Expenses are charged to program services, management and general, and fundraising categories based on direct expenditures incurred. Any expenditures not directly chargeable are allocated based on personnel activity, pounds of food distributed or other appropriate indicators.

During the year ended June 30, 2016, the Organization began classifying additional food items distributed along with the emergency food boxes, such as bread, produce, beverages and other emergency food items, as part of the Emergency Food program on the consolidated statement of functional expenses. In prior years, these additional food items distributed were included in Other Distributions on the consolidated statement of functional expenses.



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Income Tax Status

Both St. Mary's and the Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code . In addition, both have been classified as organizations that are not private foundations under Section 501(a)(3).

The Organization recognizes uncertainty in income taxes in the consolidated financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2016 and 2015, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income tax in general and administrative expenses. During the years ended June 30, 2016 and 2015, the Organization did not have any income tax related interest and penalties expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 18, 2017, the date the consolidated financial statements were available to be issued.

NOTE 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. As of June 30, 2016 and 2015, the Organization's bank balances exceeded the federally insured limits by approximately \$1,428,000 and \$2,061,000, respectively.

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.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2016

NOTE 2 CONCENTRATIONS OF CREDIT RISK (Continued)

Program and other receivables at June 30, 2016 and 2015 include amounts due from three funding sources that approximate 88% and 91%, respectively, of total net program and other receivables. Concentrations of credit risk with respect to these receivables are limited due to the nature of the receivables and the collection history with these funding sources. The Organization requires no collateral on its program and other receivables.

Promises to give at June 30, 2016 include an amount due from one donor that approximates 99% of total promises to give. Concentrations of credit risk with respect to promises to give are limited due to the collection history with this donor.

NOTE 3 INVENTORY

Inventory consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Donated food inventory	\$ 3,763,613	\$ 3,297,939
Government food	883,752	996,511
Purchased food inventory	338,957	241,639
Other inventory	<u>15,211</u>	<u>16,031</u>
	<u>\$ 5,001,533</u>	<u>\$ 4,552,120</u>

The Organization received 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 year ended June 30, 2016 donated food of approximately 72,000,000 pounds, valued at a composite price of \$1.67 per pound, is reflected in the accompanying consolidated statements of activities as revenue in the amount of \$120,079,472. For the year ended June 30, 2015 donated food of approximately 60,000,000 pounds, valued at a composite price of \$1.70 per pound, is reflected in the accompanying consolidated statements of activities as revenue in the amount of \$102,447,221. 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 statements of functional expenses.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets (Level 1).

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 855,157	\$ -	\$ -	\$ 855,157
Mutual funds	7,298,572	-	-	7,298,572
Fixed income funds	1,768,415	-	-	1,768,415
Exchange traded funds	<u>3,298,167</u>	<u>-</u>	<u>-</u>	<u>3,298,167</u>
Total investments	<u>\$ 13,220,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,220,311</u>

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 1,400,753	\$ -	\$ -	\$ 1,400,753
Mutual funds	7,668,757	-	-	7,668,757
Fixed income funds	1,354,722	-	-	1,354,722
Exchange traded funds	<u>2,992,989</u>	<u>-</u>	<u>-</u>	<u>2,992,989</u>
Total investments	<u>\$ 13,417,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,417,221</u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 479,686	\$ 358,659
Unrealized investment loss	(645,757)	(431,126)
Realized investment gain	<u>50,152</u>	<u>77,893</u>
Investment return	<u>\$ (115,919)</u>	<u>\$ 5,426</u>

Investment fees in the amount of \$44,502 and \$49,591 for the years ended June 30, 2016 and 2015, respectively, are included in other expenses on the accompanying consolidated statements of functional expenses.

NOTE 5 SPLIT INTEREST AGREEMENTS

The Organization has entered into several charitable gift annuity agreements whereby the donor contributes assets in exchange for distributions based on the value of the trust assets for a specified period of time to the donor. At the end of the specified time, the remaining assets are available for the Organization's use. At the time of receipt, the Organization recorded the investment at its fair value at the date of the gift and recorded an annuity payment liability, which was the present value of actuarially determined estimated future cash payments to the donor. The difference between the fair value of the charitable gift annuity and the annuity payment liability was recognized as a contribution in the year of donation. As of June 30, 2016 and 2015, the present value of the annuity payment liability is \$288,257 and \$295,642, respectively. The current amount due in the next year is \$29,681. 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 2039. Assets of the Organization that are reserved for charitable gift annuities totaled \$444,753 and \$487,237 at June 30, 2016 and 2015, respectively, and are included within investments in the accompanying consolidated statements of financial position.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,202,865	\$ 2,202,865
Buildings and improvements	17,343,807	16,802,367
Furniture, fixtures and equipment	4,420,302	4,303,096
Vehicles	1,147,556	1,096,834
Equipment held under capital leases	<u>2,673,641</u>	<u>2,186,595</u>
	27,788,171	26,591,757
Accumulated depreciation and amortization	<u>(11,469,816)</u>	<u>(10,826,664)</u>
	16,318,355	15,765,093
Construction in progress	<u>37,533</u>	<u>286,850</u>
	<u>\$ 16,355,888</u>	<u>\$ 16,051,943</u>

Depreciation expense charged to operations was \$1,606,742 and \$1,544,172 for the years ended June 30, 2016 and 2015.

NOTE 7 LINE OF CREDIT

The Organization maintains a \$1,000,000 line of credit with a bank that expires January 31, 2017 and bears interest at a floor rate of 4%. The line of credit is secured by the Organization's inventory and equipment. There was no outstanding balance or activity on this line of credit as of June 30, 2016 and 2015.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2016</u>	<u>2015</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 approximately \$1,300,000 of cash held in investments. The Organization also entered into an agreement that includes a loan forgiveness provision triggered by a put option of \$1,000 that was available to be exercised in November 2016, which the Organization has elected to do.	<u>\$ 3,834,600</u>	<u>\$ 3,834,600</u>
	<u><u>\$ 3,834,600</u></u>	<u><u>\$ 3,834,600</u></u>

NOTE 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 monthly payments on these leases total approximately \$39,000. 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 5% to 11%.

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

	<u>2016</u>	<u>2015</u>
Vehicles and other equipment	\$ 2,673,641	\$ 2,186,595
Accumulated depreciation	<u>(482,175)</u>	<u>(803,299)</u>
	<u><u>\$ 2,191,466</u></u>	<u><u>\$ 1,383,296</u></u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 9 CAPITAL LEASE OBLIGATIONS (Continued)

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

<u>Years Ending June 30,</u>	
2017	\$ 489,896
2018	489,897
2019	405,340
2020	397,636
2021	397,635
Thereafter	<u>667,922</u>
Total minimum lease payments	2,848,326
Less amount representing interest	<u>(607,857)</u>
Total future minimum lease payments	2,240,469
Less current maturities	<u>(352,884)</u>
Noncurrent portion	<u><u>\$ 1,887,585</u></u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 10 NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity. Temporarily restricted net assets are expendable for the purposes designated by their source.

The nature of these restrictions are as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets		
Robert S. and Esther E. Haldeman endowment fund	<u>\$ 6,000</u>	<u>\$ 6,000</u>
Temporarily restricted net assets		
Time restricted		
Promises to give	\$ 8,500	\$ 39,890
Eisenhower charitable trust	18,667	18,667
Purpose restrictions		
Property and equipment purchases	8,760	8,760
Community Kitchen	72,912	62,657
Affordable living houses	42,755	42,755
Summer hubs	101,392	74,141
Generator docking stations	65,285	-
Operational equipment	15,000	-
Kids Cafe truck	166,500	-
Protein grant	41,569	-
Advocacy	-	50,000
Warehouse repairs to be in AIB compliance	-	45,967
Mobile pantry	-	48,825
School pantry	-	124,360
Backpacks and other	-	14,030
	<u>\$ 541,340</u>	<u>\$ 530,052</u>

The Board of Directors has designated portions of the unrestricted net assets as an operating reserve. These designated amounts are held in investment accounts by the Foundation.



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016

NOTE 11 LEASES

The Organization leases office equipment and an office in Flagstaff, Arizona under operating lease agreements that expire through December 2020. Approximate future minimum payments under these non-cancelable operating leases as of June 30, 2016 are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 178,000
2018	111,000
2019	80,000
2020	78,000
2021	<u>39,000</u>
	<u>\$ 486,000</u>

Total rental expense under these leases was approximately \$169,000 and \$278,000, during the years ended June 30, 2016 and 2015, respectively.

NOTE 12 RETIREMENT PLAN

The Organization participates in a qualified 401(k) defined contribution retirement plan (the "Plan") for eligible employees. Contributions are based on a percentage of salary. Contributions to the Plan under this arrangement were \$145,350 and \$116,837, respectively, for the years ending June 30, 2016 and 2015.



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

CONSOLIDATING INFORMATION

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2016

	<u>SMFBA</u>	<u>SMFB Foundation</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 2,018,429	\$ -
Inventory	5,001,533	-
Program and other receivables, net of allowance for doubtful accounts of \$20,000	976,857	-
Promises to give, current portion	1,508,500	-
Due from affiliate	1,285,970	-
Prepaid expenses	92,469	-
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	10,883,758	-
 INVESTMENTS	 3,463,940	 9,756,371
 PROPERTY AND EQUIPMENT, net	 16,355,888	 -
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 30,703,586</u>	<u>\$ 9,756,371</u>
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 511,932	\$ -
Accrued payroll expenses	992,163	-
Due to affiliate	-	1,285,970
Current maturities of gift annuities payable	29,681	-
Current maturities of capital lease obligations	352,884	-
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	1,886,660	1,285,970
 GIFT ANNUITIES PAYABLE, less current maturities	 258,576	 -
 CAPITAL LEASE OBLIGATIONS, less current maturities	 1,887,585	 -
 NOTES PAYABLE	 3,834,600	 -
	<hr/>	<hr/>
TOTAL LIABILITIES	7,867,421	1,285,970
 <b>NET ASSETS</b>		
Unrestricted	12,532,453	8,470,402
Board designated	9,756,371	-
	<hr/>	<hr/>
Total unrestricted	22,288,824	8,470,402
 Temporarily restricted	 541,340	 -
Permanently restricted	6,000	-
	<hr/>	<hr/>
TOTAL NET ASSETS	22,836,164	8,470,402
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,703,585</u>	<u>\$ 9,756,372</u>

<u>Consolidating Eliminations</u>	<u>Total</u>
\$ -	\$ 2,018,429
-	5,001,533
-	976,857
-	1,508,500
(1,285,970)	-
-	92,469
<hr/>	
(1,285,970)	9,597,788
-	13,220,311
-	16,355,888
<hr/>	
<u>\$ (1,285,970)</u>	<u>\$ 39,173,987</u>
\$ -	\$ 511,932
-	992,163
(1,285,970)	-
-	29,681
-	352,884
<hr/>	
(1,285,970)	1,886,660
-	258,576
-	1,887,585
-	3,834,600
<hr/>	
(1,285,970)	7,867,421
-	21,002,855
-	9,756,371
<hr/>	
-	30,759,226
-	541,340
-	6,000
<hr/>	
-	31,306,566
<hr/>	
<u>\$ (1,285,970)</u>	<u>\$ 39,173,987</u>

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION  
CONSOLIDATING STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

	<u>SMFBA</u>	<u>SMFB Foundation</u>
<b>PUBLIC SUPPORT</b>		
Donated surplus food and commodities	\$ 120,079,472	\$ -
Community contributions	17,776,094	-
Governmental grants	1,907,415	-
Kid's Cafe	3,147,487	-
Source program	602,625	-
Shared maintenance fees	191,727	-
CK Catering	50,332	-
Investment return	676,372	(94,385)
Miscellaneous and other revenue	182,413	-
	<u>144,613,937</u>	<u>(94,385)</u>
<b>TOTAL PUBLIC SUPPORT</b>		
<b>EXPENSES</b>		
Program services		
Emergency food	83,487,289	-
Source distribution	766,652	-
Child nutrition	3,187,626	-
Community kitchen	801,987	-
Commodity supplemental food program	4,964,137	-
Distributions	43,254,432	-
	<u>136,462,123</u>	<u>-</u>
<b>TOTAL PROGRAM SERVICES</b>		
Supporting services		
Fundraising and communications	4,009,951	-
Management and general	3,110,650	733,215
	<u>7,120,601</u>	<u>733,215</u>
<b>TOTAL SUPPORTING SERVICES</b>		
	<u>143,582,724</u>	<u>733,215</u>
<b>TOTAL EXPENSES</b>		
<b>CHANGE IN NET ASSETS</b>	1,031,213	(827,600)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>21,804,951</u>	<u>9,298,002</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 22,836,164</u>	<u>\$ 8,470,402</u>

<u>Consolidating Eliminations</u>	<u>Total</u>
\$ -	\$ 120,079,472
-	17,776,094
-	1,907,415
-	3,147,487
-	602,625
-	191,727
-	50,332
(697,906)	(115,919)
-	182,413
(697,906)	143,821,646
-	83,487,289
-	766,652
-	3,187,626
-	801,987
-	4,964,137
-	43,254,432
-	136,462,123
-	4,009,951
(697,906)	3,145,959
(697,906)	7,155,910
(697,906)	143,618,033
-	203,613
-	31,102,953
\$ -	\$ 31,306,566





ST. MARY'S FOOD BANK ALLIANCE  
UNIFORM GUIDANCE  
SUPPLEMENTARY REPORTS



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the consolidated financial statements of St. Mary's Food Bank Alliance and SMFB Foundation (nonprofit organizations), which comprise the statement of financial position as of June 30, 2016, 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, and have issued our report thereon dated January 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered St. Mary's Food Bank Alliance and SMFB Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. Mary's Food Bank Alliance and SMFB Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether St. Mary's Food Bank Alliance and SMFB Foundation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Home, LLP

Tempe, Arizona  
January 18, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
St. Mary's Food Bank Alliance  
Phoenix, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited St. Mary's Food Bank Alliance's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of St. Mary's Food Bank Alliance's major federal programs for the year ended June 30, 2016. St. Mary's Food Bank Alliance's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of St. Mary's Food Bank Alliance's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about St. Mary's Food Bank Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of St. Mary's Food Bank Alliance's compliance.

**Opinion on Each Major Federal Program**

In our opinion, St. Mary's Food Bank Alliance complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of St. Mary's Food Bank Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered St. Mary's Food Bank Alliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Mary's Food Bank Alliance's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona  
January 18, 2017

ST. MARY'S FOOD BANK ALLIANCE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2016

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Federal</u>	<u>Grantor's</u>	<u>Passed through to Subrecipients</u>	<u>Federal</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Food Distribution Cluster				
Passed through Arizona Department of Health and Human Services				
Commodity Supplemental Food Program (Administrative Costs)	10.565	/ ADHS12-	-	\$ 397,715
Commodity Supplemental Food Program (Food Commodities)	10.565	Commodity food	3,356,286	4,472,050
Senior Farmer's Market Nutrition Program	10.565	ADHS12-010885	-	2,518
			<u>3,356,286</u>	<u>4,872,283</u>
Passed through Arizona Department of Economic Security				
Emergency Food Assistance Program (Administrative Costs)	10.568	ADES-020759	-	575,492
Emergency Food Assistance Program (Food Commodities)	10.569	Commodity food	12,799,199	18,540,366
			<u>12,799,199</u>	<u>19,115,858</u>
Total Food Distribution Cluster			<u>16,155,485</u>	<u>23,988,141</u>
Passed through Arizona Department of Economic Security				
State Administrative Matching Grant for the				
Supplemental Nutrition Assistance Program	10.561	Unknown	-	23,395
Passed through Arizona Department of Education				
Child and Adult Care Food Program (Child Feeding)	10.558	KR02-1170-ALS	-	2,452,350
Summer Food Service Program for Children (Summer Feeding)	10.559	ED09-0001	-	695,137
<b>Total U.S. Department of Agriculture</b>			<u>16,155,485</u>	<u>27,159,023</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Community Development Block Grants				
Passed through City of Phoenix				
Home Bound Delivery	14.218	none issued	-	16,173
Emergency Food	14.218	none issued	-	35,000
Roofing project- Federal CDBG Funds	14.218	none issued	-	100,000
Passed through City of Avondale				
Emergency Food	14.218	none issued	-	6,500
Passed through City of Goodyear				
Emergency Food	14.218	none issued	-	7,500
Passed through City of Surprise				
Bathroom project- Federal CDBG Funds	14.218	none issued	-	86,746
<b>Total U.S. Department of Housing and Urban Development</b>			<u>-</u>	<u>251,919</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through Arizona Department of Economic Security				
Temporary Assistance for Needy Families (Food Assistance)	93.558	ADES-020759	-	175,881
Passed through Arizona Department of Economic Security				
Social Services Block Grant (Food Assistance)	93.667	ADES-020759	-	14,609
<b>Total U.S. Department of Health and Human Services</b>			<u>-</u>	<u>190,490</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 16,155,485</u>	<u>\$ 27,601,432</u>

\* Denotes major program

ST. MARY'S FOOD BANK ALLIANCE  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of St. Mary's Food Bank Alliance under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of St. Mary's Food Bank Alliance, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the *Catalog of Federal Domestic Assistance*.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowed or are limited as to reimbursement. St. Mary's Food Bank Alliance has elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.



ST. MARY'S FOOD BANK ALLIANCE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2016

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?      yes   X   no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?      yes   X   none reported

Noncompliance material to financial statements noted?      yes   X   no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?      yes   X   no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?      yes   X   none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?      yes   X   no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.565, 10.568, and 10.569	Department of Agriculture – Emergency Food Assistance Cluster
10.558	Child and Adult Care Food Program

Dollar threshold used to distinguish between Type A and Type B programs: \$828,043

Auditee qualified as low-risk auditee?   X   yes      no

ST. MARY'S FOOD BANK ALLIANCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
June 30, 2016

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None noted

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None noted