



ST MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2013



HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the 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 statement of financial position as of June 30, 2013, 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 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Mary's Food Bank Alliance and SMFB Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic 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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 November 13, 2013, on our consideration of St. Mary's Food Bank Alliance'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 internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona
November 13, 2013



ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2013

ASSETS

CURRENT ASSETS

| | |
|--|----------------|
| Cash | \$ 2,827,142 |
| Inventory | 9,908,920 |
| Program and other receivables, net of allowance for doubtful accounts of \$20,000 | 520,812 |
| Promises to give, current portion | 130,003 |
| Prepaid expenses | <u>324,865</u> |

TOTAL CURRENT ASSETS 13,711,742

INVESTMENTS 8,871,977

PROMISES TO GIVE, net of current portion 23,975

PROPERTY AND EQUIPMENT, net 16,397,866

TOTAL ASSETS \$ 39,005,560

LIABILITIES

CURRENT LIABILITIES

| | | |
|---|----|----------------|
| Accounts payable | \$ | 542,025 |
| Accrued payroll expenses | | 652,093 |
| Current maturities of gift annuities payable | | 25,637 |
| Current maturities of capital lease obligations | | <u>213,116</u> |

TOTAL CURRENT LIABILITIES 1,432,871

GIFT ANNUITIES PAYABLE, less current maturities 246,173

CAPITAL LEASE OBLIGATIONS, less current maturities 425,716

NOTES PAYABLE 4,003,600

TOTAL LIABILITIES 6,108,360

NET ASSETS

| | |
|------------------|------------------|
| Unrestricted | 24,156,675 |
| Board designated | <u>8,460,631</u> |

Total unrestricted 32,617,306

Temporarily restricted 273,894

Permanently restricted 6,000

TOTAL NET ASSETS 32,897,200

TOTAL LIABILITIES AND NET ASSETS \$ 39,005,560

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> |
|---------------------------------------|----------------------|-----------------------------------|
| REVENUE | | |
| Donated surplus food and commodities | \$114,423,567 | \$ - |
| Community contributions | 13,189,870 | - |
| Governmental grants | 2,905,271 | - |
| Kid's Café | 1,895,944 | - |
| Source program | 676,821 | - |
| Shared maintenance fees | 231,507 | - |
| Food value club | 76,913 | - |
| CK Catering | 133,832 | - |
| Community kitchen | 8,575 | - |
| Investment return | 870,673 | 6,440 |
| Miscellaneous and other revenue | 313,155 | - |
| Net assets released from restrictions | 248,343 | (248,343) |
| | <u>134,974,471</u> | <u>(241,903)</u> |
| TOTAL REVENUE | | |
| EXPENSES | | |
| Program services | | |
| Distributions | 92,455,095 | - |
| Emergency Box programs | 24,940,629 | - |
| Food value club | 86,069 | - |
| Kid's Café | 1,782,112 | - |
| Commodity supplemental food program | 5,408,837 | - |
| Source distribution | 740,313 | - |
| Community kitchen | 784,961 | - |
| | <u>126,198,016</u> | <u>-</u> |
| TOTAL PROGRAM SERVICES | | |
| Supporting services | | |
| Fundraising and communications | 2,676,155 | - |
| Management and general | 2,155,659 | - |
| | <u>4,831,814</u> | <u>-</u> |
| TOTAL SUPPORTING SERVICES | | |
| | <u>131,029,830</u> | <u>-</u> |
| TOTAL EXPENSES | | |
| CHANGE IN NET ASSETS | 3,944,641 | (241,903) |
| NET ASSETS, BEGINNING OF YEAR | <u>28,672,665</u> | <u>515,797</u> |
| NET ASSETS, END OF YEAR | <u>\$ 32,617,306</u> | <u>\$ 273,894</u> |

See accompanying notes.

| Permanently Restricted | Total |
|---------------------------|---------------|
| \$ - | \$114,423,567 |
| - | 13,189,870 |
| - | 2,905,271 |
| - | 1,895,944 |
| - | 676,821 |
| - | 231,507 |
| - | 76,913 |
| - | 133,832 |
| - | 8,575 |
| - | 877,113 |
| - | 313,155 |
| - | - |
| - | 134,732,568 |
| - | 92,455,095 |
| - | 24,940,629 |
| - | 86,069 |
| - | 1,782,112 |
| - | 5,408,837 |
| - | 740,313 |
| - | 784,961 |
| - | 126,198,016 |
| - | 2,676,155 |
| - | 2,155,659 |
| - | 4,831,814 |
| - | 131,029,830 |
| - | 3,702,738 |
| 6,000 | 29,194,462 |
| \$ 6,000 | \$ 32,897,200 |

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

| | <u>Emergency Box Program</u> | <u>Value Marketplace</u> | <u>Source Distribution</u> | <u>Kid's Café</u> | <u>Community Kitchen</u> |
|----------------------------------|----------------------------------|------------------------------|--------------------------------|----------------------------|------------------------------|
| Salaries and related expenses | \$ 1,093,728 | \$ 13,917 | \$ 70,592 | \$ 490,246 | \$ 530,322 |
| Food Purchases | 418,916 | 58,563 | 582,158 | 973,465 | 51,643 |
| Occupancy Costs | 138,109 | 807 | 8,914 | 33,592 | 14,811 |
| Depreciation | 259,022 | 1,513 | 16,718 | 62,741 | 82,051 |
| Donated Food Surplus | 22,574,041 | 3,317 | 33,085 | 63,000 | - |
| Education and Training | 2,331 | 14 | 150 | (146) | 7,766 |
| Fuel | 139,562 | 815 | 9,008 | 13,179 | 577 |
| Insurance | 36,368 | 212 | 2,347 | 2,806 | - |
| Supplies | 277 | 2 | 18 | 57,488 | 22,748 |
| Other Expenses | 7,089 | 31 | 458 | 2,132 | 54,974 |
| Packaging Products | 53,409 | 312 | 3,447 | 54,611 | 2,703 |
| Postage/Mail | 41 | - | 3 | 288 | - |
| Printing | 589 | 3 | 38 | 2,029 | 2,006 |
| Professional Fees | 2,890 | 17 | 187 | 3,690 | 530 |
| Rental/ Lease | 68,214 | 398 | 4,403 | 5,263 | 500 |
| Administration | 38,675 | 5,521 | 1,857 | 4,935 | 11,033 |
| Interest | - | - | - | - | - |
| Technology | 7,772 | 45 | 502 | 600 | 3,393 |
| Travel | 8,504 | 50 | 549 | 4,285 | (101) |
| Vehicle Costs | 91,092 | 532 | 5,879 | 7,908 | 5 |
| TOTAL FUNCTIONAL EXPENSES | <u>\$ 24,940,629</u> | <u>\$ 86,069</u> | <u>\$ 740,313</u> | <u>\$ 1,782,112</u> | <u>\$ 784,961</u> |

| <u>CSFP</u> | <u>Distributions</u> | <u>Other Distribution</u> | <u>Total Programs</u> | <u>Fundraising & Communication</u> | <u>General Administration</u> | <u>Total Expenses</u> |
|---------------------|----------------------|-------------------------------|---------------------------|--|-----------------------------------|---------------------------|
| \$ 666,662 | \$ 2,272,044 | \$ 1,860,923 | \$ 6,998,434 | \$ 1,453,492 | \$ 1,199,922 | \$ 9,651,848 |
| 28,054 | 523,612 | 165,043 | 2,801,454 | - | (44,165) | 2,757,289 |
| 70,161 | 281,827 | 234,985 | 783,206 | 687 | 6,449 | 790,342 |
| 54,364 | 528,154 | 440,712 | 1,445,275 | 30,875 | 27,625 | 1,503,775 |
| 4,434,709 | 45,519,786 | 38,919,284 | 111,547,222 | - | - | 111,547,222 |
| 489 | 4,752 | 3,966 | 19,322 | 8,436 | 17,784 | 45,542 |
| 29,291 | 284,570 | 237,457 | 714,459 | 4,653 | 1,798 | 720,910 |
| 7,633 | 74,156 | 61,878 | 185,400 | 6,500 | 38,143 | 230,043 |
| 58 | 565 | 471 | 81,627 | 3,083 | 14,886 | 99,596 |
| 6,040 | 14,760 | 12,062 | 97,546 | 600,279 | 8,132 | 705,957 |
| 63,054 | 108,668 | 90,872 | 377,076 | 13,319 | - | 390,395 |
| 9 | 83 | 69 | 493 | 254,751 | 18,295 | 273,539 |
| 124 | 1,201 | 998 | 6,988 | 41,388 | 2,514 | 50,890 |
| 607 | 5,893 | 4,917 | 18,731 | 55,254 | 192,119 | 266,104 |
| 16,930 | 139,090 | 115,487 | 350,285 | - | 48,102 | 398,387 |
| 8,117 | 79,396 | 65,803 | 215,337 | 131,851 | 106,861 | 454,049 |
| - | - | - | - | - | 95,497 | 95,497 |
| 1,631 | 15,847 | 13,224 | 43,014 | 41,407 | 384,539 | 468,960 |
| 1,785 | 17,341 | 14,470 | 46,883 | 30,106 | 37,158 | 114,147 |
| 19,119 | 185,740 | 154,989 | 465,264 | 74 | - | 465,338 |
| <u>\$ 5,408,837</u> | <u>\$ 50,057,485</u> | <u>\$ 42,397,610</u> | <u>\$ 126,198,016</u> | <u>\$ 2,676,155</u> | <u>\$ 2,155,659</u> | <u>\$ 131,029,830</u> |

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

| | |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 3,702,738 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 1,503,775 |
| Change in discount on promises to give | (20,450) |
| Bad debt expense | 994 |
| Realized and unrealized gains on investments | (670,093) |
| (Increase) decrease in assets: | |
| Inventory | (2,477,267) |
| Program and other receivables | 50,145 |
| Promises to give | 287,293 |
| Prepaid expenses | (154,467) |
| Increase (decrease) in liabilities: | |
| Accounts payable | (56,761) |
| Accrued payroll expenses | (3,026) |
| Gift annuities payable | (4,938) |
| | <u>2,157,943</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of property and equipment | (882,522) |
| Purchase of investments | (11,237,304) |
| Proceeds from sale of investments | 11,111,863 |
| | <u>(1,007,963)</u> |
| NET CASH USED FOR INVESTING ACTIVITIES | |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Payments on long-term debt | (910,444) |
| Payments on capital lease obligations | (237,760) |
| | <u>(1,148,204)</u> |
| NET CASH USED FOR FINANCING ACTIVITIES | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | |
| | 1,776 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | |
| | <u>2,825,366</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | |
| | <u><u>\$ 2,827,142</u></u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | |
| Cash paid for interest expense | <u><u>\$ 95,497</u></u> |

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

St. Mary's Food Bank Alliance (the "Alliance"), the world's first food bank, was established in 1967. The Alliance 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. The Alliance is supported by various sources including community donations, the United Way, and government funding. Its main programs include:

- **Emergency Food Boxes** – The Alliance distributes Emergency Food Boxes, at no cost, to individuals and families in need. Emergency Food Boxes are designed to provide temporary food assistance during times of crisis while a more permanent solution is found.
- **Value Marketplace** – The Value Marketplace is a self-sustaining program open to the public that is designed to help families trying to stretch their food budgets as far as possible. All of the food is purchased by the Alliance using its buying power to pass the savings on to its shoppers. As of February 15, 2013, this program was discontinued.
- **Source Distribution** - Source distribution is a volume-buying service offered by the Alliance to its partner agency organizations. By purchasing in truckload quantities, the Alliance 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.
- **Kid's Café** - Kid's Café is a meal-service program that provides Arizona children with what is often their last meal of the day. The Alliance collaborates with more than 80 schools, community centers, churches, and other neighborhood groups to provide 4,000 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, benefits, and opportunities for advancement through hands-on food service training as well as classroom studies.
- **Commodity Supplemental Food Programs ("CSFP")** - The CSFP Program is a federally funded program which works to improve the health of low-income pregnant and breastfeeding women, other new mothers up to 1 year post-partum, infants, children up to 6, and elderly people at least 60 years of age by supplementing their diets with nutritious commodity foods.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

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

- **Distributions** - The Distribution program represents food distribution to the Alliance's partner agencies, in bulk, rather than emergency food box form.
- **Other Distributions** - Other Distributions represent food that is rescued from retail grocery partners directly by the Alliance's 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 the Alliance'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.

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.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

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

Program and Other Receivables

Program and other receivables include amounts due from customers for food purchased and other services provided 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. As of June 30, 2013, the allowance for doubtful accounts was \$20,000.

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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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 pledges is not considered necessary.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 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 SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

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

A framework for measuring fair value has been established by the Accounting Standards Codification and 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">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| 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). |

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

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

Fair Value Measurements (Continued)

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

Investment income or loss (including realized and unrealized gains and losses) is included in the change in unrestricted net assets in the accompanying consolidated statement 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 Value Marketplace, Source distributions, the Kid's Café program, and the Community Kitchen and Catering program. Value Marketplace and distribution revenue is recognized when goods are provided. Kid's Café, Community Kitchen and the catering program recognize revenue when services are rendered. Contract revenue for program services that is collected in advance is recorded as deferred revenue.

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 statement of activities as net assets released from restrictions.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

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

Contributions (Continued)

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair values in the period received. In-kind donations include food. 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. For the year ended June 30, 2013, the Organization received the benefit of over 292,000 hours of service from over 20,000 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 was approximately \$61,711 for the year ended June 30, 2013, 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 or other appropriate indicators.

Income Tax Status

Both the Alliance and the Foundation qualify as a tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code . In addition, both have been classified as organizations that are not a private foundation 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, 2013, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization's federal and state exempt returns are no longer subject to examination by the Internal Revenue Service and the State of Arizona for fiscal years prior to June 30, 2010 and 2009, respectively, generally three to four years after they were filed.

The Organization recognizes interest and penalties associated with income tax in general and administrative expenses. During the year ended June 30, 2013, the Organization did not have any income tax related interest and penalties expense.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

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

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 November 13, 2013, 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, 2013, the Organization's bank balances exceeded the federally insured limits by approximately \$2,154,000.

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). Balances over \$500,000 are insured by the investment firm.

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 SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 3 INVENTORY

Inventory consisted of the following at June 30, 2013:

| | |
|--------------------------|---------------------|
| Donated food inventory | \$ 7,834,928 |
| Commodities inventory | 1,608,417 |
| Purchased food inventory | 449,334 |
| Other inventory | <u>16,241</u> |
| | <u>\$ 9,908,920</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, 2013, donated food of approximately 68,000,000 pounds, valued at a composite price of \$1.69 per pound, is reflected in the accompanying consolidated statement of activities as revenue in the amount of \$114,423,567. The composite price is the estimated weighted average wholesale amount per pound, as determined by Feeding America.

Shipping and handling costs for donated food are expensed as they are incurred, and are included in the accompanying consolidated statement of functional expenses.

NOTE 4 PROMISES TO GIVE

Promises to give consist of the following as of June 30, 2013:

| | |
|--|------------------|
| Receivable in less than one year | \$ 130,003 |
| Receivable in two to three years | <u>31,484</u> |
| | 161,487 |
| Discount to present value | <u>(7,509)</u> |
| Total promises to give | 153,978 |
| Current portion | <u>(130,003)</u> |
| Promises to give, net of current portion | <u>\$ 23,975</u> |

The estimated cash flows for promises to give are discounted to present value using a management determined discount rate of 4%.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, receivables, accounts payable and accrued expenses approximates their respective fair values because of the short maturity of these instruments.

Investments with readily determinable fair values are measured at fair value in the consolidated statement 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, 2013:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------|---------------------|----------------|----------------|---------------------|
| Investments: | | | | |
| Cash and money market funds | \$ 3,111,345 | \$ - | \$ - | \$ 3,111,345 |
| Mutual funds | 5,676,389 | - | - | 5,676,389 |
| Fixed Income Fund | 84,243 | - | - | 84,243 |
| | <u>84,243</u> | <u>-</u> | <u>-</u> | <u>84,243</u> |
| Total investments | <u>\$ 8,871,977</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,871,977</u> |

Investment return is summarized as follows for the year ended June 30, 2013:

| | |
|----------------------------|-------------------|
| Interest and dividends | \$ 207,020 |
| Unrealized investment gain | 713,460 |
| Realized investment gain | 16,864 |
| Investment fees | <u>(60,231)</u> |
| Investment return | <u>\$ 877,113</u> |

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 SPLIT INTEREST AGREEMENTS

The Organization is party to various split-interest agreements classified as charitable gift annuities. Assets of the Organization that are derived from charitable gift annuities totaled \$348,076 at June 30, 2013, and are included within investments in the accompanying consolidated statement of financial position.

These annuity agreements require the Organization to pay the donor a specified amount each year of his life. 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, 2013, the present value of the annuity payment liability is \$271,810, with \$25,637 due in the next year. To calculate the present value of the charitable gift annuity, management used the applicable federal rate of approximately 4%. Charitable gift annuities are estimated to mature through 2039.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2013:

| | |
|---|----------------------|
| Land | \$ 2,202,865 |
| Buildings and improvements | 16,515,255 |
| Furniture, fixtures and equipment | 3,802,578 |
| Vehicles | 1,088,435 |
| Equipment held under capital leases | 1,639,125 |
| Construction in progress | <u>15,420</u> |
| | 25,263,678 |
| Accumulated depreciation and amortization | <u>(8,865,812)</u> |
| | <u>\$ 16,397,866</u> |

Depreciation expense charged to operations was \$1,503,775 for the year ended June 30, 2013.

NOTE 8 LINE OF CREDIT

The Organization maintains a \$1,000,000 line of credit with a bank that expires in April 2014 and bears interest at the greater of a floating rate, which was approximately 3.25% at June 30, 2013, or the floor rate of 4%. The line of credit is secured by the Organization's inventory and equipment. There was no activity on this line of credit during the year ended June 30, 2013.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 9 LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2013:

Mortgage note payable forgivable within ten years with repayment credits. Years 1-5 are forgiven at a rate of 0% and years 6-10 are forgiven at a rate of 20% annually. Collateralized by property. \$ 169,000

Notes 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 is available to be exercised in November 2017. 3,834,600

Current portion 4,003,600
-
\$ 4,003,600

Minimum future principal payments are as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|---------------------|
| 2014 | \$ - |
| 2015 | - |
| 2016 | - |
| 2017 | - |
| 2018 | 3,652,600 |
| Thereafter | <u>351,000</u> |
| | <u>\$ 4,003,600</u> |

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 10 CAPITAL LEASE OBLIGATIONS

The Organization has entered into capital leases for vehicles and other equipment. These leases expire at various periods through April 2016. The monthly payments on these leases total approximately \$45,000. 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 6% to 11%.

The following is a summary of property held under capital leases at June 30, 2013:

| | |
|------------------------------|--------------------|
| Vehicles and other equipment | \$ 1,639,125 |
| Accumulated depreciation | <u>(1,130,566)</u> |
| | <u>\$ 508,559</u> |

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

| | |
|-------------------------------------|-------------------|
| <u>Years Ending June 30,</u> | |
| 2014 | \$ 259,684 |
| 2015 | 256,581 |
| 2016 | <u>203,536</u> |
| Total minimum lease payments | 719,801 |
| Less amount representing interest | <u>(80,969)</u> |
| Total future minimum lease payments | 638,832 |
| Less current maturities | <u>(213,116)</u> |
| Noncurrent portion | <u>\$ 425,716</u> |

NOTE 11 NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is being accumulated and added to the principal of the endowment.

Temporarily restricted net assets are expendable for the purposes designated by their source.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 11 NET ASSETS (Continued)

The nature of these restrictions are as follows as of June 30, 2013:

| | |
|--|------------------------|
| Permanently restricted net assets | |
| Robert S. and Esther E. Haldema endowment fund | <u>\$ 6,000</u> |
| Temporarily restricted net assets | |
| Time restricted | |
| Promises to give | \$ 153,978 |
| Eisenhower charitable trust | 18,667 |
| Purpose restrictions | |
| Property and equipment purchases | 8,760 |
| Community Kitchen | 49,734 |
| Affordable living houses | <u>42,755</u> |
| | <u>\$ 273,894</u> |

The Board of Directors has designated portions of the unrestricted net assets as an operating reserve.

NOTE 12 LEASES

The Organization leases office equipment and a building in Flagstaff, Arizona under operating lease agreements that expire through October 2017. Minimum future payments under these non-cancelable operating leases as of June 30, 2013 are as follows:

| | |
|------------------------------|----------------------|
| <u>Years Ending June 30,</u> | |
| 2014 | \$ 227,854 |
| 2015 | 188,694 |
| 2016 | 150,519 |
| 2017 | 142,137 |
| 2018 | <u>23,714</u> |
| | <u>\$ 732,918</u> |

Total rental expense under these leases was approximately \$302,000 during the year ended June 30, 2013.

ST. MARY'S FOOD BANK ALLIANCE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

NOTE 13 RETIREMENT PLAN

The Organization participates in a 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 \$109,910 for the year ending June 30, 2013.

NOTE 14 CONCENTRATION

Program and other receivables at June 30, 2013 include amounts due from three funding sources that approximate 71% of total 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.

NOTE 15 SUBSEQUENT EVENTS

To better serve Northern Arizona agencies, the Alliance implemented a direct routing delivery model subsequent to the year ended June 30, 2013, closed its cross-dock warehouse and opened an administrative office in its place.

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, 2013

| | <u>SMFBA</u> | <u>SMFB Foundation</u> |
|--|----------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 2,782,422 | \$ 44,720 |
| Inventory | 9,908,920 | - |
| Program and other receivables, net of allowance for doubtful accounts of \$20,000 | 520,812 | - |
| Promises to give, current portion | 130,003 | - |
| Prepaid expenses | 324,865 | - |
| TOTAL CURRENT ASSETS | <u>13,667,022</u> | <u>44,720</u> |
| INVESTMENTS | 411,346 | 8,460,631 |
| PROMISES TO GIVE, net of current portion | 23,975 | - |
| PROPERTY AND EQUIPMENT, net | <u>16,397,866</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 30,500,209</u> | <u>\$ 8,505,351</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 542,025 | \$ - |
| Accrued payroll expenses | 652,093 | - |
| Current maturities of gift annuities payable | 25,637 | - |
| Current maturities of capital lease obligations | 213,116 | - |
| TOTAL CURRENT LIABILITIES | 1,432,871 | - |
| GIFT ANNUITIES PAYABLE, LESS CURRENT MATURITIES | 246,173 | - |
| CAPITAL LEASE OBLIGATIONS, LESS CURRENT MATURITIES | 425,716 | - |
| NOTES PAYABLE | <u>4,003,600</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>6,108,360</u> | <u>-</u> |
| NET ASSETS | | |
| Unrestricted | 15,651,324 | 8,505,351 |
| Board designated | 8,460,631 | - |
| Total unrestricted | <u>24,111,955</u> | <u>8,505,351</u> |
| Temporarily restricted | 273,894 | - |
| Permanently restricted | <u>6,000</u> | <u>-</u> |
| TOTAL NET ASSETS | <u>24,391,849</u> | <u>8,505,351</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 30,500,209</u> | <u>\$ 8,505,351</u> |

| <u>Consolidating Eliminations</u> | <u>Total</u> |
|---------------------------------------|----------------------|
| \$ - | \$ 2,827,142 |
| - | 9,908,920 |
| - | 520,812 |
| - | 130,003 |
| - | 324,865 |
| <u>-</u> | <u>13,711,742</u> |
| - | 8,871,977 |
| - | - |
| - | 23,975 |
| <u>-</u> | <u>16,397,866</u> |
| <u>\$ -</u> | <u>\$ 39,005,560</u> |
| | |
| \$ - | \$ 542,025 |
| - | 652,093 |
| - | 25,637 |
| <u>-</u> | <u>213,116</u> |
| - | 1,432,871 |
| - | 246,173 |
| - | 425,716 |
| <u>-</u> | <u>4,003,600</u> |
| <u>-</u> | <u>6,108,360</u> |
| - | 24,156,675 |
| <u>-</u> | <u>8,460,631</u> |
| - | 32,617,306 |
| - | 273,894 |
| <u>-</u> | <u>6,000</u> |
| <u>-</u> | <u>32,897,200</u> |
| <u>\$ -</u> | <u>\$ 39,005,560</u> |

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

| | <u>SMFBA</u> | <u>SMFB Foundation</u> |
|--------------------------------------|----------------------|----------------------------|
| PUBLIC SUPPORT | | |
| Donated surplus food and commodities | \$ 114,423,567 | \$ - |
| Community contributions | 13,189,870 | 2,190,862 |
| Governmental grants | 2,905,271 | - |
| Kid's Café | 1,895,944 | - |
| Source program | 676,821 | - |
| Shared maintenance fees | 231,507 | - |
| Food value club | 76,913 | - |
| CK Catering | 133,832 | - |
| Community kitchen | 8,575 | - |
| Investment return | 487,724 | 820,221 |
| Miscellaneous and other revenue | 313,155 | - |
| | <u>134,343,179</u> | <u>3,011,083</u> |
| TOTAL PUBLIC SUPPORT | | |
| EXPENSES | | |
| Program services | | |
| Distributions | 94,645,957 | - |
| Emergency Box programs | 24,940,629 | - |
| Food value club | 86,069 | - |
| Kid's Café | 1,782,112 | - |
| Commodity supplemental food program | 5,408,837 | - |
| Source distribution | 740,313 | - |
| Community kitchen | 784,961 | - |
| | <u>128,388,878</u> | <u>-</u> |
| TOTAL PROGRAM SERVICES | | |
| Supporting services | | |
| Management and general | 2,077,706 | 141,361 |
| Fundraising and communications | 2,676,155 | 367,424 |
| | <u>4,753,861</u> | <u>508,785</u> |
| TOTAL SUPPORTING SERVICES | | |
| | <u>133,142,739</u> | <u>508,785</u> |
| TOTAL EXPENSES | | |
| CHANGE IN NET ASSETS | 1,200,440 | 2,502,298 |
| NET ASSETS, BEGINNING OF YEAR | <u>23,191,409</u> | <u>6,003,053</u> |
| NET ASSETS, END OF YEAR | <u>\$ 24,391,849</u> | <u>\$ 8,505,351</u> |

| <u>Consolidating Eliminations</u> | <u>Total</u> |
|---------------------------------------|----------------|
| \$ - | \$ 114,423,567 |
| (2,190,862) | 13,189,870 |
| - | 2,905,271 |
| - | 1,895,944 |
| - | 676,821 |
| - | 231,507 |
| - | 76,913 |
| - | 133,832 |
| - | 8,575 |
| (430,832) | 877,113 |
| - | 313,155 |
| (2,621,694) | 134,732,568 |
| (2,190,862) | 92,455,095 |
| - | 24,940,629 |
| - | 86,069 |
| - | 1,782,112 |
| - | 5,408,837 |
| - | 740,313 |
| - | 784,961 |
| (2,190,862) | 126,198,016 |
| (63,408) | 2,155,659 |
| (367,424) | 2,676,155 |
| (430,832) | 4,831,814 |
| (2,621,694) | 131,029,830 |
| - | 3,702,738 |
| - | 29,194,462 |
| \$ - | \$ 32,897,200 |
| \$ - | \$ 32,897,200 |



ST. MARY'S FOOD BANK ALLIANCE

OMB CIRCULAR A-133

SUPPLEMENTARY REPORTS

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HENRY & HORNE, LLP
Certified Public Accountants

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 auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Mary's Food Bank Alliance and SMFB Foundation, which comprise the consolidated statement of financial position as of June 30, 2013, 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 November 13, 2013.

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 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 internal control over financial reporting 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.

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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 of 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 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

This report is intended 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 + Horne, LLP

Tempe, Arizona
November 13, 2013



HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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 Circular A-133 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, 2013. St. Mary's Food Bank Alliance's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

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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, 2013.

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 OMB Circular A-133, 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 the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona
November 13, 2013



ST. MARY'S FOOD BANK ALLIANCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

| <u>Federal Grantor / Pass-Through Grantor / Program</u> | <u>Federal CFDA Number</u> | <u>Grantor's Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|-----------------------------|---------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Emergency Food Assistance Cluster | | | |
| Passed through Arizona Department of Health and Human Services | | | |
| Commodity Supplemental Food Program (Administrative Costs) | 10.565 | ADHS12-010885 | \$ 387,770 * |
| Commodity Supplemental Food Program (Food Commodities) | 10.565 | Commodity food | 4,131,624 * |
| Senior Farmer's Market Nutrition Program | 10.565 | ADHS12-010885 | <u>2,664 *</u> |
| | | | <u>4,522,058</u> |
| Passed through Arizona Department of Economic Security | | | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | ADES-020759 | 623,605 * |
| Emergency Food Assistance Program (Food Commodities) | 10.569 | Commodity food | <u>9,306,492 *</u> |
| | | | <u>9,930,097</u> |
| Total Emergency Food Assistance Cluster | | | <u>14,452,155 *</u> |
| Passed through Arizona Department of Economic Security | | | |
| Supplemental Nutrition Assistance Program | 10.561 | Unknown | <u>22,390</u> |
| Passed through Arizona Department of Education | | | |
| Child and Adult Care Food Program (Child Feeding) | 10.558 | KR02-1170-ALS | 1,576,006 * |
| Summer Food Service Program (Summer Feeding) | 10.559 | ED09-0001 | <u>261,578</u> |
| Total U.S. Department of Agriculture | | | <u>16,312,129</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| Passed through City of Phoenix | | | |
| Community Development Block Grants | | | |
| Home Bound Delivery | 14.218 | 134320 | 35,000 |
| Hot Meal Equipment | 14.218 | 132717 | 235,441 |
| Passed through City of Glendale | | | |
| Home Bound Delivery | 14.218 | C-8246 | 31,079 |
| Emergency Food | 14.218 | C-8247 | 36,259 |
| Passed through City of Surprise | | | |
| Emergency Food | 14.218 | Unknown | <u>22,500</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>360,279</u> |
| U.S. DEPARTMENT OF ENERGY | | | |
| Passed through Arizona Governor's Office of Energy | | | |
| Solar Energy Programs | 81.041 | EW-ESA-12-2136-0 | <u>34,900</u> |
| Total U.S. Department of Energy | | | <u>34,900</u> |

| | | | |
|---|--------|-------------|-----------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through Arizona Department of Economic Security | | | |
| Temporary Assistance for Needy Families (Food Assistance) | 93.558 | ADES-020759 | 150,000 |
| Passed through Maximus | | | |
| Temporary Assistance for Needy Families (Food Assistance) | 93.558 | Unknown | <u>8,575</u> |
| | | | 158,575 |
| Passed through Arizona Department of Economic Security | | | |
| Social Services Block Grant (Food Assistance) | 93.667 | ADES-020759 | <u>61,150</u> |
| Total U.S. Department of Health and Human Services | | | <u>219,725</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY | | | |
| Passed through United Way of Northern Arizona | | | |
| Federal Emergency Management Agency | | | |
| Emergency Food and Shelter National Board Program | 97.024 | Unknown | 3,333 |
| Passed through WHEAT | | | |
| Federal Emergency Management Agency | | | |
| Emergency Food and Shelter National Board Program | 97.024 | Unknown | <u>224,032</u> |
| Total U.S. Department of Homeland Security | | | <u>227,365</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u><u>\$ 17,154,398</u></u> |

* Denotes major program

ST. MARY'S FOOD BANK ALLIANCE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

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 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of *U.S. Office of Management and Budget OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Because the Schedule of Expenditures of Federal Awards presents only a portion of the operations of the Organization, it is not intended to and does not present the financial position, results of operations and 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 SUBRECIPIENTS

St. Mary's Food Bank Alliance received a total of approximately \$19,700,000 from the Emergency Food Assistance Program under Federal CFDA numbers 10.569 and the Commodity Supplemental Food Program under CFDA 10.565 in food commodities and distributed approximately \$13,073,000 in these food commodities to subrecipients during the year ended June 30, 2013.

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2013

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 section 510(a) of OMB Circular A-133? 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 | Department of Agriculture - Child and Adult Care Food Program |

Dollar threshold used to distinguish between Type A and
 Type B programs: \$514,632

Auditee qualified as low-risk auditee? yes X no

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
June 30, 2013

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 – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding: 2012-01 Eligibility relating to the Emergency Food Assistance Program

Status: Corrected

Finding: 2012-02 Allowable costs relating to the Emergency Food Assistance Program

Status: Corrected

Finding: 2012-03 Eligibility relating to the Commodity Supplemental Food Program

Status: Corrected

Finding: 2012-04 Reporting relating to the Commodity Supplemental Food Program

Status: Corrected

Finding: 2012-05 Subrecipient monitoring relating to the Commodity Supplemental Food
Program and Emergency Food Assistance Program

Status: Corrected