ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

Year Ended June 30, 2020

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

Year Ended June 30, 2020

CONTENTS

	Pages
INDEPENDENT AUDITORS' REPORT	1 - 3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Change in Net Assets	5
Consolidated Statements of Functional Expenses	6 - 7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 25
ADDITIONAL INFORMATION	
Consolidating Statement of Financial Position	26
Consolidating Statement of Activities and Change in Net Assets	27
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS	
Schedule of Expenditures of Federal Awards	28
Notes to the Schedule of Expenditures of Federal Awards	29
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*	30 - 31
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	32 - 33
Schedule of Findings and Questioned Costs	34 - 35

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***St. Mary's Food Bank Alliance and SMFB Foundation*** (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***St. Mary's Food Bank Alliance and SMFB Foundation*** as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ***St. Mary's Food Bank Alliance and SMFB Foundation's*** 2019 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated December 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

Other Matters

Additional Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated December 11, 2020 on our consideration of ***St. Mary's Food Bank Alliance's and SMFB Foundation's*** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***St. Mary's Food Bank Alliance's and SMFB Foundation's*** internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, ***St. Mary's Food Bank Alliance and SMFB Foundation*** changed its method of accounting for revenue from contracts with customers effective July 1, 2019, under the modified retrospective method. Additionally, as discussed in Note 1 to the consolidated financial statements, ***St. Mary's Food Bank Alliance and SMFB Foundation*** adopted Financial Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* in fiscal 2020, under the modified prospective method. Our opinion is not modified with respect to these matters.

Mayer Hoffman McCann P.C.

December 11, 2020

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2020
(with comparative totals at June 30, 2019)

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	$ 5,170,309	$ 5,226,777
Inventory	10,766,333	10,476,435
Program and other receivables, net of allowance for doubtful accounts of $20,000	2,260,782	1,845,231
Pledges receivable	140,000	100,000
Bequests receivable	623,155	1,252,695
Prepaid expenses	243,153	112,335
TOTAL CURRENT ASSETS	19,203,732	19,013,473
PLEDGES RECEIVABLE, less current portion	-	100,000
INVESTMENTS	40,124,365	21,912,897
PROPERTY AND EQUIPMENT, net	19,476,186	18,671,840
TOTAL ASSETS	$ 78,804,283	$ 59,698,210

LIABILITIES AND NET ASSETS

	2020	2019
CURRENT LIABILITIES		
Accounts payable	$ 767,779	$ 840,662
Accrued payroll expenses	999,659	720,950
Current maturities of gift annuities payable	23,082	23,082
Current maturities of capital lease obligations	326,380	310,671
TOTAL CURRENT LIABILITIES	2,116,900	1,895,365
GIFT ANNUITIES PAYABLE, less current maturities	244,546	212,727
CAPITAL LEASE OBLIGATIONS, less current maturities	576,277	902,659
TOTAL LIABILITIES	2,937,723	3,010,751
NET ASSETS		
Net assets without donor restrictions		
Undesignated	39,490,841	35,093,338
Board-designated	35,752,732	20,634,382
Total net assets without donor restrictions	75,243,573	55,727,720
Net assets with donor restrictions	622,987	959,739
TOTAL NET ASSETS	75,866,560	56,687,459
TOTAL LIABILITIES AND NET ASSETS	$ 78,804,283	$ 59,698,210

See Notes to Consolidated Financial Statements

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
SUPPORT AND REVENUES				
Donated surplus food and commodities	$ 149,511,522	$ -	$ 149,511,522	$ 137,800,153
Community contributions	40,194,498	50,000	40,244,498	25,150,892
Government grants	4,673,541	-	4,673,541	3,869,039
Kids Cafe	3,535,722	-	3,535,722	3,605,163
Shared maintenance fees	6,094	-	6,094	(17,362)
Source program	508,801	-	508,801	454,807
CK Catering	44,289	-	44,289	31,469
Investment return	1,211,243	-	1,211,243	1,211,915
Miscellaneous and other revenue	129,499	-	129,499	265,578
Net assets released from restrictions	386,752	(386,752)	-	-
TOTAL SUPPORT AND REVENUES	200,201,961	(336,752)	199,865,209	172,371,654
EXPENSES				
Program Services				
Community food	123,158,829	-	123,158,829	104,826,032
Child nutrition	5,602,133	-	5,602,133	5,177,637
Commodity supplemental food program	6,795,282	-	6,795,282	7,230,986
Grocery rescue and other distributions	35,176,077	-	35,176,077	37,244,176
Community kitchen	1,031,975	-	1,031,975	921,461
Total Program Services	171,764,296	-	171,764,296	155,400,292
Supporting Services				
Fundraising and communications	5,991,991	-	5,991,991	4,875,221
General administration	2,929,821	-	2,929,821	2,891,201
Total Supporting Services	8,921,812	-	8,921,812	7,766,422
TOTAL EXPENSES	180,686,108	-	180,686,108	163,166,714
CHANGE IN NET ASSETS	19,515,853	(336,752)	19,179,101	9,204,940
NET ASSETS, BEGINNING OF YEAR	55,727,720	959,739	56,687,459	47,482,519
NET ASSETS, END OF YEAR	$ 75,243,573	$ 622,987	$ 75,866,560	$ 56,687,459

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

	Community Food	Child Nutrition	CSFP	Grocery Rescue and Other Distributions	Community Kitchen	Total Program Services	Fundraising and Communications	General Administration	Total Expenses
Compensation	$ 6,084,687	$ 1,496,256	$ 342,325	$ 1,645,485	$ 773,471	$ 10,342,224	$ 1,764,914	$ 1,787,343	$ 13,894,481
Food purchases	1,326,631	3,367,556	242	3,907	88,451	4,786,787	325,754	-	5,112,541
Occupancy costs	891,913	99,681	50,179	241,200	10,703	1,293,676	7,791	3,905	1,305,372
Depreciation	1,331,283	123,911	74,898	360,019	62,116	1,952,227	-	29,509	1,981,736
Donated food surplus	110,967,520	151,675	6,183,792	32,234,030	-	149,537,017	-	-	149,537,017
Education and training	11,119	5,670	626	3,007	11,935	32,357	1,102	2,667	36,126
Fuel	491,645	66,611	27,660	132,956	381	719,253	778	90	720,121
Insurance	154,594	8,237	8,697	41,807	-	213,335	6,500	60,449	280,284
Supplies	305	7,317	17	83	20,743	28,465	50	8,323	36,838
Other expenses	104,635	8,103	5,887	28,296	36,930	183,851	21,352	56,327	261,530
Packaging products	514,511	151,581	28,946	139,139	672	834,849	-	-	834,849
Postage/mail	806	43	45	218	-	1,112	82,787	3,187	87,086
Printing	5,919	507	333	1,601	4,385	12,745	23,284	2,265	38,294
Professional fees	1,519	7,392	85	411	-	9,407	323,204	257,916	590,527
Rental/lease	618,083	33,947	34,773	167,149	2,462	856,414	-	26,752	883,166
Administration	92,927	19,394	5,228	25,130	3,280	145,959	463,562	206,005	815,526
Technology	76,845	4,094	4,323	20,781	152	106,195	963	456,717	563,875
Travel	39,066	5,790	2,200	10,565	16,273	73,894	21,408	28,366	123,668
Vehicle costs	444,821	44,368	25,026	120,293	21	634,529	-	-	634,529
Donor communications	-	-	-	-	-	-	1,672,003	-	1,672,003
Community outreach	-	-	-	-	-	-	1,276,539	-	1,276,539
TOTAL FUNCTIONAL EXPENSES	$ 123,158,829	$ 5,602,133	$ 6,795,282	$ 35,176,077	$ 1,031,975	$ 171,764,296	$ 5,991,991	$ 2,929,821	$ 180,686,108

See Notes to Consolidated Financial Statements

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

	Community Food	Child Nutrition	CSFP	Grocery Rescue and Other Distributions	Community Kitchen	Total Program Services	Fundraising and Communications	General Administration	Total Expenses
Compensation	$ 4,906,368	$ 1,351,338	$ 315,338	$ 1,616,579	$ 726,654	$ 8,916,277	$ 1,706,123	$ 1,680,620	$ 12,303,020
Food purchases	1,572,939	3,029,542	2,827	60,397	25,549	4,691,254	452,317	-	5,143,571
Occupancy costs	650,881	124,248	41,845	214,456	3,301	1,034,731	3,886	3,255	1,041,872
Depreciation	1,205,241	92,884	77,462	397,110	61,613	1,834,310	-	26,000	1,860,310
Donated food surplus	94,045,286	193,081	6,541,618	34,149,943	-	134,929,928	-	-	134,929,928
Education and training	7,135	976	459	2,351	13,789	24,710	8,208	9,236	42,154
Fuel	510,969	89,323	32,841	168,357	380	801,870	990	48	802,908
Insurance	142,667	8,416	9,169	47,007	-	207,259	6,500	53,118	266,877
Supplies	1,990	11,012	128	656	19,801	33,587	207	22,494	56,288
Other expenses	180,990	15,716	20,445	59,644	39,468	316,263	1,991	56,652	374,906
Packaging products	381,118	135,970	109,929	125,573	713	753,303	36,919	-	790,222
Postage/mail	556	48	36	183	-	823	35,690	14,290	50,803
Printing	5,158	9,735	332	1,700	8,830	25,755	16,719	2,233	44,707
Professional fees	1,138	6,897	73	375	9,043	17,526	193,683	316,732	527,941
Rental/lease	598,845	35,324	38,488	197,311	3,144	873,112	1,780	24,798	899,690
Administration	83,300	9,213	5,542	27,429	3,671	129,155	223,305	232,885	585,345
Technology	62,009	3,658	3,985	20,431	184	90,267	20	433,999	524,286
Travel	34,327	7,774	2,504	11,310	5,321	61,236	29,921	14,841	105,998
Vehicle costs	435,115	52,482	27,965	143,364	-	658,926	13	-	658,939
Donor communications	-	-	-	-	-	-	1,427,205	-	1,427,205
Community outreach	-	-	-	-	-	-	729,744	-	729,744
TOTAL FUNCTIONAL EXPENSES	$ 104,826,032	$ 5,177,637	$ 7,230,986	$ 37,244,176	$ 921,461	$ 155,400,292	$ 4,875,221	$ 2,891,201	$ 163,166,714

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 19,179,101	$ 9,204,940
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,981,736	1,860,310
Loss on sale/disposal of property and equipment	5,535	106,992
Contributions restricted to investment in property and equipment	(518,530)	(400,000)
Realized and unrealized gains on investments	(648,239)	(798,531)
(Increase) decrease in assets:		
Inventory	(289,898)	(2,877,422)
Program and other receivables	(415,551)	(485,727)
Pledges receivable	60,000	(200,000)
Bequests receivable	629,540	(430,708)
Prepaid expenses	(130,818)	(17,707)
Increase (decrease) in liabilities:		
Accounts payable	(72,883)	23,198
Accrued payroll expenses	278,709	104,589
Gift annuities payable	31,819	(31,726)
Net cash provided by operating activities	20,090,521	6,058,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,791,617)	(2,413,343)
Purchase of investments	(20,198,181)	(5,645,845)
Proceeds from sale of investments	2,634,952	710,874
Net cash used in investing activities	(20,354,846)	(7,348,314)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in property and equipment	518,530	400,000
Payments on capital lease obligations	(310,673)	(303,389)
Net cash provided by financing activities	207,857	96,611
NET CHANGE IN CASH AND CASH EQUIVALENTS	(56,468)	(1,193,495)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,226,777	6,420,272
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,170,309	$ 5,226,777
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 84,634	$ 97,390

See Notes to Consolidated Financial Statements

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

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

- **Community Food** - Community Food consists of the Emergency Food and Source Distribution programs. Emergency Food is distributed at no cost to 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 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** - Child Nutrition consists of the Kids Cafe, Backpacks and School Pantry programs. Kids Cafe continues to be the largest component of St. Mary's Child Nutrition efforts. The Kids Cafe meal-service program, which is funded by the Arizona Department of Education through the U.S. Department of Agriculture, provides Arizona children with what is often their last meal of the day. The addition of the weekend Backpack and School Pantry programs has expanded the services offered to school aged children. St. Mary's collaborates with more than 184 schools, community centers, churches and other neighborhood groups to provide more than 7,300 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 consists of both the Community Kitchen and CK Catering programs. 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 consists of a program solely funded by federal funds which works to improve the health of elderly people at least 60 years of age by supplementing their diets with nutritious commodity foods.

- **Grocery Rescue and Other Distributions** - The vast majority of Grocery Rescue and Other Distributions consists of food rescued from retail grocery partners directly by St. Mary's and its partner agencies, totaling approximately $31,273,000 and $31,681,000 for the years ended June 30, 2020 and 2019, respectively.

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

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

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

Basis of presentation - The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under ASC 958-205, the Organization is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions
Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. At June 30, 2020 and 2019 the Organization had no perpetual net assets with donor restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and change in net assets.

Prior-year summarized information - The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

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

Management's use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

(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 net realizable value.

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

Bequests - Bequests are recognized as contribution revenue in the period the Organization receives notification the court has found the will of the donor’s estate to be valid and all conditions have been substantially met. At June 30, 2020 and 2019, bequests receivable are all due within one year. Management provides for probable uncollectible bequests receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual bequests receivable, if necessary. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to bequests receivable. At June 30, 2020 and 2019, bequests receivable are deemed by management to be fully collectible; accordingly, an allowance for uncollectible bequests is not considered necessary.

Promises to give - Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management’s assessment of many factors, including when the pledge is expected to be collected, the creditworthiness of the donors, the Organization’s past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable’s collectability. Amortization of the discounts, if any, is included in contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2020 and 2019, management considers promises to give to be collectible in full and, accordingly, an allowance for uncollectible promises to give is not considered necessary. At June 30, 2019, all pledges receivable are due within one year. At June 30, 2019, the Organization recorded a long-term pledge receivable of $100,000. The present value discount for the pledge was not material.

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

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

Impairment of long-lived assets - The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges were recorded for the years ended June 30, 2020 or 2019.

Investments - The Organization accounts for its investments in accordance with FASB ASC 958-321, *Not-for-Profit Entities - Investments - Equity Securities* and FASB ASC 958-320, *Not-for-Profit Entities - Investments - Debt Securities*. Under FASB ASC 958-320 and FASB ASC 958-321, the Organization reports investments in equity and debt securities at fair value in the consolidated statement of financial position. The fair value of marketable equity securities with readily determinable fair values are based on quoted market prices. The fair value of fixed income securities are measured using quoted market prices multiplied by the quantity held when quoted market prices are observable. If quoted market prices are not available, fair value is determined using one, or a combination, of the following methods: (1) a matrix pricing for similar bonds, (2) quoted prices for recent trading activity of assets with similar characteristics to the bond or (3) using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk and a credit value adjustment to consider the likelihood of counterparty nonperformance, after consideration for the impact of collateralization and netting agreements, if applicable.

Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is included in net assets without restrictions unless the associated income or loss is restricted. Declines in the fair value of investments below their cost that are deemed to be other than temporary are reflected as realized losses. There were no declines in fair value of investments below their cost that were deemed to be other than temporary as of and for the years ended June 30, 2020 and 2019.

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

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

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

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

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

Level 3: Unobservable inputs for the asset or liability.

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

Revenue from contracts with customers - The Organization’s Source Program and CK Catering program are accounted for as exchange transactions in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers*, as described below.

Source program revenues from sales of food items to the public are reported at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for the goods. Amounts received for sales are recorded as revenue at the point in time the goods are transferred to the customer. Payment is due at the time of the sale and this transaction may result in accounts receivable.

CK catering program revenues for catering events held are reported at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services. Cancellation provisions vary by program and refunds may be available for services not provided. Revenue is recognized at the time the event is held. Unearned fees are reflected as contract liabilities in the accompanying consolidated statement of financial position. As of June 30, 2020, there were no contract liabilities associated with CK catering program revenues.

Substantially all of the Organization’s contracts with customers include a single performance obligation to transfer the promised good or service. The Organization does not have any significant financing components as payment is generally received in a customary time frame from the customers. The contracts do not contain material amounts of variable consideration. At contract inception, the Organization evaluates the probability of collecting the transaction price based on the history of payment by the customer.

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

Upon the adoption of ASC 606, the following practical expedients were utilized:

- Application of the modified-retrospective method upon adoption of ASC Topic 606 which allowed the new accounting standard to be applied only to contracts that were not considered substantially complete as of July 1, 2019.
- When an unconditional right to consideration from a customer in an amount that corresponds directly with the value of performance completed to date exists, revenue is recognized equal to the amount to which there is a right to invoice for services performed.
- When the Organization transfers goods or services to a customer and payment from the customer is expected within one year or less, a significant financing component is presumed not to exist.

Government grants and Kids Cafe revenue - The Organization has contracts with city, state and federal agencies to provide a variety of program services to the public based on contract requirements, including eligibility, reimbursement, and other requirements. These contracts from governmental agencies were determined to be conditional contributions and are recorded as revenue as the conditions are met, which is generally when the related expenditures are incurred over the period the service is provided or under unit of service contracts as services are provided. As these are generally non-exchange contracts, amounts billed for unpaid services are included in program and other receivables in the accompanying consolidated statements of financial position. Advances are recorded as deferred revenue upon receipt.

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

As of June 30, 2020, the Organization had various governmental grants that are conditional in nature and the revenue can only be recognized once funds have been spent on qualified costs. As of June 30, 2020, the remaining amount of conditional contributions under these governmental grants is not material to the consolidated financial statements.

Contributions - In accordance with ASU 2018-08, the Organization evaluates grants and contributions for evidence of the transfer of commensurate value from the Organization to the grantor or resource provider. The transfer of commensurate value from the Organization to the grantor or resource provider may include instances when a) the goods or services provided by the Organization directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Organization. When such factors exist, the Organization accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Organization accounts for the award under the contribution accounting model.

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

In the absence of the transfer of commensurate value from the Organization to the resource provider, the Organization evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Organization or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Organization and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Organization to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Organization recognizes amounts received from unconditional contributions at the time the Organization receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Organization.

The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and change in net assets as net assets released from restrictions. Restricted contributions, where restrictions are fulfilled in the same period in which the contribution is received, are shown as additions to net assets without donor restrictions.

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

Donated services are recorded in accordance with FASB ASC 958-605 at their estimated fair value if they (a) create or enhance the Organization’s nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization utilizes the services of numerous volunteers to perform a variety of tasks that assist the Organization with specific programs, campaign solicitations, and various committee assignments. During the year ended June 30, 2020, the Organization received the benefit of approximately 177,000 hours from approximately 70,000 volunteers. During the year ended June 30, 2019, the Organization received the benefit of approximately 226,000 hours from approximately 81,000 volunteers. This support has not been recorded as a component of contribution revenue as it does not meet the recognition criteria under FASB ASC 958-605.

Advertising - Advertising costs are expensed as incurred. Advertising expenses totaled $35,848 and $8,858 respectively, for the years ended June 30, 2020 and 2019.

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

Functional expenses - The costs of providing the Organization's various programs and other activities have been reported on a functional basis in the accompanying consolidated statement of activities and change in net assets. The consolidated statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. The Organization charges substantially all of the expenses directly to the appropriate function. Program services expenses are allocated among the specific programs on the basis of pounds of food distributed during the fiscal year. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

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

St. Mary's and the Foundation evaluate their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2020 and 2019, management believes St. Mary's and the Foundation did not have any uncertain tax positions.

St. Mary's and the Foundation's federal Returns of Organizations Exempt from Income Tax (Form 990) for 2017, 2018, and 2019 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2020 returns had not yet been filed.

Recent accounting pronouncements - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* that supersedes most current revenue recognition guidance, including industry-specific guidance. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606),* which changed the effective date of the provisions of FASB ASU No. 2014-09. The Organization adopted this standard as of July 1, 2019, using a modified retrospective approach to contracts that were not completed as of this date.

Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets. Amounts reported related to 2019 are unadjusted for the effects of ASC Topic 606. The timing of revenue recognition was not affected by the adoption of Topic 606. As a result, there was no adjustment to net assets as of July 1, 2019.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the characterization of grants and similar contracts with governmental agencies as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provides additional guidance to distinguish between conditional and unconditional contributions. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The Organization adopted this ASU during 2020 using the modified prospective approach. Adoption of this ASU did not impact the timing of revenue recognition, but expanded disclosures.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. ASU 2016-02 is effective for fiscal year beginning after December 15, 2020. The Organization has estimated that if they were to adopt ASU 2016-02 for the year ended June 30, 2020, a non-current right of use asset of approximately $478,000 and a corresponding current and non-current lease liability of approximately $161,000 and $317,000 respectively, would be recorded in the accompanying consolidated statement of financial position as of June 30, 2020. The estimate was calculated using the minimum future lease payments (See Note 10) and a discount rate of 0.18% representing an estimated risk free rate.

In June 2020, the FASB issued FASB ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which allows certain entities to elect to defer the effective date of the provisions of FASB ASU No. 2014-09 and ASU No. 2015-14 and ASU No. 2016-02. These entities may elect to adopt the guidance for revenue for annual reporting periods beginning after December 15, 2019. Additionally, under the amendments, entities may elect to adopt the leases guidance for fiscal years beginning after December 15, 2021.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* which requires the entity to present contributed nonfinancial assets in a separate line item in the consolidated statement of activities and change in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, the entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact adoption would have on the consolidated financial statements.

Subsequent events - The Organization has evaluated events through December 11, 2020, which is the date the consolidated financial statements were available to be issued.

Subsequent to June 30, 2020, the Organization entered into an agreement for the purchase of a specific parcel of land. Concurrent with the agreement, the Organization has made an earnest money deposit and entered into a six month feasibility extension. The purchase is contingent on zoning and site plans being approved. As of the date the consolidated financials were available to be issued, there is no certainty that the purchase will be approved and finalized.

(2) Concentrations of credit risk

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and investments. The Organization maintains its cash in bank accounts, which are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC"). Periodically, the Organization maintains cash in its financial institutions in excess of the amounts insured by the FDIC.

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

Of the program and other receivables at June 30, 2020 and 2019, 94% and 69%, respectively, are due from departments within the State of Arizona. Concentrations of credit risk with respect to these receivables are limited due to the nature of the receivables and the collection history with the funding sources. The Organization requires no collateral on its program and other receivables.

Of the bequests receivable at June 30, 2020, 40% is due from one donor, and at June 30, 2019 63%, was due from three donors.

Of donated surplus food and commodities revenues during the years ended June 30, 2020 and 2019, 29% and 21%, respectively, was donated from one organization and two organizations, respectively.

(3) Inventory

Inventory consists of the following at June 30:

	2020	2019
Donated food inventory	$ 7,828,421	$ 7,952,720
Government food	2,153,007	2,054,203
Purchased food inventory	781,201	450,795
Other inventory	3,704	18,717
Total cost and donated value	$ 10,766,333	$ 10,476,435

The Organization receives donated food from various private and public sources. In order to provide a measurable basis for evaluating the primary mission of the Organization, management values food for purposes of including donated and distributed food as components of the accompanying consolidated financial statements. For the years ended June 30, 2020 and 2019, donated food of approximately 100,343,000 pounds and 90,806,000 pounds, respectively, valued at a composite price of $1.49 and $1.52 per pound, respectively, is reflected in the accompanying consolidated statements of activities and change in net assets as donated surplus food and commodities. The composite price is the estimated weighted average wholesale amount per pound, as determined by Feeding America.

Shipping and handling costs for donated food are expensed as they are incurred, and are included in the accompanying consolidated statement of activities and change in net assets within program services expense.

(4) Investments and fair value of financial instruments

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2020:

	(Level 1)	(Level 2)	(Level 3)
Investments:			
Cash and money market funds	$ 15,007,149	$ -	$ -
Mutual funds:			
Large cap equity	256,630	-	-
Small cap equity	261,530	-	-
Other equity	458,926	-	-
Fixed income	5,778,955	-	-
Fixed income:			
Corporate bonds	-	3,464,289	-
Government bonds	-	3,917,422	-
Other	-	167,707	-
Exchange traded funds	10,811,757	-	-
Total investments	$ 32,574,947	$ 7,549,418	$ -

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2019:

	(Level 1)	(Level 2)	(Level 3)
Investments:			
Cash and money market funds	$ 40,201	$ -	$ -
Mutual funds:			
Large cap equity	2,300,698	-	-
Small cap equity	629,797	-	-
Other equity	576,879	-	-
Fixed income	3,193,256	-	-
Other	997,184	-	-
Fixed income:			
Corporate bonds	-	1,630,384	-
Government bonds	-	2,301,818	-
Other	-	281,790	-
Exchange traded funds	9,960,890	-	-
Total investments	$ 17,698,905	$ 4,213,992	$ -

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

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

	2020	2019
Interest and dividends	$ 674,457	$ 497,778
Unrealized investment gains	10,064	335,691
Realized investment gains	638,175	462,840
Investment fees	(111,453)	(84,394)
Total investment return	$ 1,211,243	$ 1,211,915

(5) Split interest agreements

The Organization currently administers charitable gift annuities that provide an annual income payment to the beneficiaries until the income obligation is completed in accordance with the donor’s trust agreement. The assets contributed under the charitable gift annuities are carried at fair value. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using a risk-free discount rate determined at the time the annuities are established, and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. As of June 30, 2020 and 2019, the present value of the annuity payment liability is $267,628 and $235,809 respectively. To calculate the present value of the charitable gift annuity, management used the applicable federal rate of approximately 5% as of June 30, 2020 and 2019. Charitable gift annuities are estimated to mature through 2041. Assets of the Organization that are reserved for charitable gift annuities totaled $407,788 and $424,956 at June 30, 2020 and 2019, respectively, and are included within investments in the accompanying consolidated statements of financial position.

(6) Property and equipment

Property and equipment consist of the following at June 30:

	2020	2019
Land	$ 2,202,865	$ 2,202,865
Buildings and improvements	23,170,047	22,257,346
Furniture, fixtures, and equipment	4,745,191	4,447,399
Vehicles	3,158,797	2,202,997
Equipment held under capital leases	2,598,449	2,673,641
	35,875,349	33,784,248
Accumulated depreciation and amoritization	(16,420,460)	(15,174,869)
	19,454,889	18,609,379
Construction in progress	21,297	62,461
Property and equipment, net	$ 19,476,186	$ 18,671,840

Depreciation expense charged to operations was $1,981,736 and $1,860,310 respectively, for the years ended June 30, 2020 and 2019.

(7) Line of credit

The Organization maintained a line of credit with a bank that bore interest at the greater of the lender's prime rate or 4%. The line of credit had an original maturity date of February 1, 2018. Effective September 25, 2017, the Organization amended the line of credit agreement with a bank increasing the available balance from $1,000,000 to $4,200,000 and modifying the interest rate to equal the one month London Interbank Offered Rate ("LIBOR") published by ICE Benchmark Administration Limited plus 1.25%. The line of credit was secured by the Organization's inventory, accounts and equipment and matured on April 1, 2019. The Organization did not renew the line of credit. There was no outstanding balance or activity on this line of credit as of and for the year ended June 30, 2019.

(8) Capital lease obligations

The Organization has entered into capital leases for vehicles and other equipment. These leases expire at various periods through March 2024. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum future lease payments or the fair value of the assets. Amortization expense under these capital leases is included in depreciation expense. Interest rates on these capital leases vary from 4.73% to 5.25%.

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

	2020	2019
Vehicle and other equipment	$ 2,598,449	$ 2,673,641
Accumulated depreciation and amortization	(1,790,361)	(1,562,014)
Assets held under capital leases, net	$ 808,088	$ 1,111,627

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

Years Ending June 30,	
2021	$ 397,635
2022	336,487
2023	190,322
2024	141,114
Total minimum lease payments	$ 1,065,558
Less amounts representing interest	(162,901)
Present value of minimum lease payments	902,657
Current maturities	(326,380)
Noncurrent maturities	$ 576,277

Interest expense related to the capital leases above totaled approximately $85,000 and $98,000 respectively, for the years ended June 30, 2020 and 2019.

(9) Net assets

Net assets without donor restrictions include board-designated assets that have been set aside by the Board of Directors of St. Mary's. Board-designated funds are intended to fund future capital projects and early-stage strategic initiatives which are Board-approved but not considered in the annual operating budget, as well as provide potential funding for food purchases in the event of scarcity and for a future recession, should such situations present themselves. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. The board designated net assets are held in investment accounts by the Foundation and total $35,752,732 and $20,634,382 respectively, as of June 30, 2020 and 2019.

Net assets with donor restrictions are available for the following restricted purposes as of June 30:

	2020	2019
Time restrictions	$ 118,667	$ 218,667
Purpose restrictions	504,320	741,072
Total net assets with donor restrictions	$ 622,987	$ 959,739

Net assets with donor restrictions released from restriction during the year ended June 30, 2020 are as follows:

Satisfaction of purpose restriction:	
Community kitchen	$ 101,106
Kids café truck and equipment	250,578
School pantry	35,068
Total net assets with donor restrictions released from restrictions	$ 386,752

(10) Operating leases

The Organization leases office equipment and office space under operating lease agreements that expire through July 2024. Future minimum payments under these non-cancelable operating leases as of June 30, 2020 are as follows:

Years Ending June 30,	
2021	$ 161,385
2022	131,476
2023	135,636
2024	48,474
2025	3,377
Total minimum lease payments	$ 480,348

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

(10) Operating leases (continued)

Total rental expense under these leases as well as short term vehicle leases was approximately $882,000 and $898,000 respectively, for the years ended June 30, 2020 and 2019.

Additionally, the Organization entered into an agreement in September 1998 to receive donated office and warehouse facilities from an unrelated party in Surprise, Arizona. The lease automatically renews annually and can be terminated by either party. The space has an estimated fair value of $.50 per square foot. For the years ended June 30, 2020 and 2019, the Organization recognized an in-kind contribution of $173,526 related to this donated space which is included in community contributions in the accompanying consolidated statements of activities and change in net assets.

(11) Retirement plan

The Organization participates in a qualified 401(k) defined contribution retirement plan (the "Plan") for eligible employees. Subsequent to the employee completing 3 months of employment with the Organization and the employee being 21 years of age, an employee is eligible to participate in the plan. Contributions are based on a percentage of salary. The Organization has a discretionary match policy and the Organization elects on an annual basis what percentage to match of the employee contributions made to the plan. Contributions to the Plan under this arrangement were $415,107 and $313,343 respectively, for the years ended June 30, 2020 and 2019.

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

(12) Risks and contingencies

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

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The COVID-19 outbreak is also disrupting supply chains of personal protective equipment and other medical supplies. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on customers, donors, employees, volunteers, and vendors, all of which are uncertain and cannot be predicted. Additionally, the outbreak could impact the Organization’s ability to receive cash and food donations, impact future grants and contracts from governmental agencies, and may impact the Organization’s ability to collect on receivables. The pandemic has also negatively impacted U.S. and global financial markets and the Organization’s investments have experienced significant volatility.

(12) Risks and contingencies (continued)

In response to the pandemic, the U.S. Government has enacted fiscal and monetary stimulus measures to counteract the disruption caused by the coronavirus. The Organization continues to assess how they might benefit from and utilize the various monetary stimulus measures. Additionally, the Organization has received significant additional contributions in fiscal 2020 and into fiscal 2021 to provide temporary food assistance during the pandemic.

As of the date the consolidated financial statements were available to be issued, the Organization has incurred additional costs related primarily to the need to hire additional personnel and to clean and maintain facilities and food stores. However, as a result of additional donations and government food donations, the Organization's operations have not been negatively impacted. However, the Organization continues to closely monitor the situation. Depending on the severity and duration of the pandemic, the Organization could experience a material impact to operations, cash flows and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

(13) Liquidity and availability of resources

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the return on investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing mission-based activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The following table reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts that are not currently available to meet general expenditures within one year of the consolidated statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include investments necessary to fund gift annuities, net assets with donor restrictions and board-designated funds. Board-designated funds are intended to fund future capital projects and early-stage strategic initiatives which are Board-approved but not considered in the annual operating budget, as well as provide potential funding for food purchases in the event of scarcity and for a future recession, should such situations present themselves. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

(13) Liquidity and availability of resources (continued)

	2020	2019
Cash and cash equivalents	$ 5,170,309	$ 5,226,777
Program and other receivables, net	2,260,782	1,845,231
Pledges receivable	140,000	200,000
Bequests receivable	623,155	1,252,695
Investments	40,124,365	21,912,897
Total financial assets	48,318,611	30,437,600
Less: Board designated net assets	(35,752,732)	(20,634,382)
Less: Investments designated to fund gift annuities	(407,788)	(424,956)
Less: Net assets with donor restriction	(622,987)	(959,739)
Financial assets available to meet cash needs for general expenditures within one year	$ 11,535,104	$ 8,418,523

While the Organization’s investments are classified as long-term in the accompanying consolidated statements of financial position based on management’s intent, the investments could be readily liquidated without significant penalty to fund operating cash flow needs, except as noted above.

ADDITIONAL INFORMATION

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2020

A S S E T S

	St. Mary's	Foundation	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 4,386,016	$ 784,293	$ -	$ 5,170,309
Inventory	10,766,333	-	-	10,766,333
Program and other receivables,				
net of allowance for doubtful accounts of $20,000	2,260,782	-	-	2,260,782
Pledges receivable	140,000	-	-	140,000
Bequests receivable	623,155	-	-	623,155
Prepaid expenses	243,153	-	-	243,153
TOTAL CURRENT ASSETS	18,419,439	784,293	-	19,203,732
INVESTMENTS	5,155,926	34,968,439	-	40,124,365
PROPERTY AND EQUIPMENT, net	19,476,186	-	-	19,476,186
TOTAL ASSETS	$ 43,051,551	$ 35,752,732	$ -	$ 78,804,283

L I A B I L I T I E S   A N D   N E T   A S S E T S

	St. Mary's	Foundation	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable	$ 767,779	$ -	$ -	$ 767,779
Accrued payroll expenses	999,659	-	-	999,659
Current maturities of gift annuities payable	23,082	-	-	23,082
Current maturities of capital lease obligations	326,380	-	-	326,380
TOTAL CURRENT LIABILITIES	2,116,900	-	-	2,116,900
GIFT ANNUITIES PAYABLE, less current maturities	244,546	-	-	244,546
CAPITAL LEASE OBLIGATIONS, less current maturities	576,277	-	-	576,277
TOTAL LIABILITIES	2,937,723	-	-	2,937,723
NET ASSETS	40,113,828	35,752,732	-	75,866,560
TOTAL LIABILITIES AND NET ASSETS	$ 43,051,551	$ 35,752,732	$ -	$ 78,804,283

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2020

	St. Mary's	Foundation	Eliminations	Total
SUPPORT AND REVENUES				
Donated surplus food and commodities	$ 149,511,522	$ -	$ -	$ 149,511,522
Community contributions	40,244,498	14,000,000	(14,000,000)	40,244,498
Government grants	4,673,541	-	-	4,673,541
Kids Cafe	3,535,722	-	-	3,535,722
Shared maintenance fees	6,094	-	-	6,094
Source program	508,801	-	-	508,801
CK Catering	44,289	-	-	44,289
Investment return	92,815	1,118,428	-	1,211,243
Miscellaneous and other revenue	129,499	-	-	129,499
TOTAL SUPPORT AND REVENUES	198,746,781	15,118,428	(14,000,000)	199,865,209
EXPENSES				
Program Services				
Community food	123,158,829	-	-	123,158,829
Child nutrition	5,602,133	-	-	5,602,133
Commodity supplemental food program	6,795,282	-	-	6,795,282
Grocery rescue and other distributions	35,176,077	-	-	35,176,077
Community kitchen	1,031,975	-	-	1,031,975
Grants	14,000,000	-	(14,000,000)	-
Total Program Services	185,764,296	-	(14,000,000)	171,764,296
Supporting Services				
Fundraising and communications	5,991,991	-	-	5,991,991
General administration	2,929,743	78	-	2,929,821
Total Supporting Services	8,921,734	78	-	8,921,812
TOTAL EXPENSES	194,686,030	78	(14,000,000)	180,686,108
CHANGE IN NET ASSETS	4,060,751	15,118,350	-	19,179,101
NET ASSETS, BEGINNING OF YEAR	36,053,077	20,634,382	-	56,687,459
NET ASSETS, END OF YEAR	$ 40,113,828	$ 35,752,732	$ -	$ 75,866,560

UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Passed Through to Subrecipeints	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Food Distribution Cluster				
Passed through Arizona Department of Economic Security				
Commodity Supplemental Food Program (Administrative Costs)	10.565	ADES-174333	$ -	$ 818,379
Commodity Supplemental Food Program (Food Commodities)	10.565	Commodity Food	3,770,128	6,265,335
Emergency Food Assistance Program (Administrative Costs)	10.568	ADES-174333	-	849,843
Emergency Food Assistance Program (Food Commodities)	10.569	Commodity Food	30,329,358	43,321,214
Total Food Distribution Cluster (10.565, 10.568 and 10.569)			34,099,486	51,254,771
Passed through Arizona Department of Economic Security				
Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants	10.537	Unknown	-	185,527
Passed through Arizona Department of Economic Security				
Trade Mitigation Food Purchase and Distribution Program	10.178	ADES-174333	-	1,055,000
Passed through Arizona Department of Education				
Child and Adult Care Food Program (Child Feeding)	10.558	KR02-1170-ALS	-	2,404,518
Passed through Arizona Department of Education				
Summer Food Service Program for Children (Summer Feeding)	10.559	ED09-0001	-	487,381
COVID-19 - Summer Food Service Program for Children (Summer Feeding)	10.559	ED09-0001	-	627,740
Total Summer Food Service Program for Children (10.559)			-	1,115,121
Total U.S. Department of Agriculture			34,099,486	56,014,937
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grants/Entitlement Grants				
Passed through City of Avondale				
Emergency Food	14.218	Unknown	-	5,500
Passed through City of Goodyear				
Emergency Food	14.218	Unknown	-	7,500
Total U.S. Department of Housing and Urban Development			-	13,000
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-174333	-	192,312
Total U.S. Department of Health and Human Services			-	192,312
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Federal Emergency Management Agency				
Emergency Food and Shelter National Board Program	97.024	Unknown	-	200,000
Total U.S. Department of Homeland Security			-	200,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 34,099,486	$ 56,420,249

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of ***St. Mary’s Food Bank Alliance and SMFB Foundation*** under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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 and SMFB Foundation***, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of ***St. Mary’s Food Bank Alliance and SMFB Foundation***.

(2) 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 allowable or are limited as to reimbursement. ***St. Mary's Food Bank Alliance and SMFB Foundation*** has elected not to use the ten percent de minimus indirect cost rate as allowed under the Uniform Guidance.

(3) Catalog of federal domestic assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the 2020 *Catalog of Federal Domestic Assistance*.

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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*

To the Board of Directors of

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

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*** which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and change in net assets, 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 December 11, 2020.

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) as a basis for designing 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 ***St. Mary's Food Bank Alliance and SMFB Foundation'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 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 their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

December 11, 2020

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

To the Board of Directors of

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

Report on Compliance for Each Major Federal Program

We have audited ***St. Mary's Food Bank Alliance and SMFB Foundation's*** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("*OMB") Compliance Supplement* that could have a direct and material effect on each of ***St. Mary's Food Bank Alliance and SMFB Foundation's*** major federal programs for the year ended June 30, 2020. ***St. Mary's Food Bank Alliance and SMFB Foundation'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 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 ***St. Mary's Food Bank Alliance and SMFB Foundation'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* (the "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 and SMFB Foundation'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 and SMFB Foundation's*** compliance.

Opinion on Each Major Federal Program

In our opinion, ***St. Mary's Food Bank Alliance and SMFB Foundation*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of ***St. Mary's Food Bank Alliance and SMFB Foundation*** 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 and SMFB Foundation'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 and SMFB Foundation'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 a 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.

Mayer Hoffman McCann P.C.

December 11, 2020

ST. MARY'S FOOD BANK ALLIANCE AND SMFB FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

Section I – Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the consolidated financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of Auditors' Report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
10.565, 10.568 and 10.569	Food Distribution Cluster
10.178	Trade Mitigation Food Purchase and Distribution

Dollar threshold used to distinguish between type A and type B programs:	$1,692,607
Auditee qualified as low-risk auditee?	No

ST. MARY'S FOOD BANK ALLIANCE
AND SMFB FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

Section II – Financial Statement Findings

None noted

Section III – Findings and Questioned Costs Relating to Federal Awards

None noted