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

## CONSOLIDATED FINANCIAL STATEMENTS,
## ADDITIONAL INFORMATION AND UNIFORM GUIDANCE
## SUPPLEMENTARY REPORTS

Year Ended June 30, 2023

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

## CONSOLIDATED FINANCIAL STATEMENTS,
## ADDITIONAL INFORMATION AND UNIFORM GUIDANCE
## SUPPLEMENTARY REPORTS

Year Ended June 30, 2023

CONTENTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

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

### Report on the Audit of the Consolidated Financial Statements

***Opinion***

We have audited the 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, 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2023, 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.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Change in Accounting Principle***

As discussed in Notes 1 and 11 to the consolidated financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*, effective July 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

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In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### *Report on Summarized Comparative Information*

We have previously audited ***St. Mary's Food Bank Alliance and SMFB Foundation's*** 2022 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated November 23, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

***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* 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 GAAS. 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 November 22, 2023 on our consideration of the Organization'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

November 22, 2023

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2023
(with comparative totals for June 30, 2022)

**ASSETS**

| | 2023 | 2022 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 7,009,178 | $ 8,725,383 |
| Inventory | 7,658,899 | 7,890,360 |
| Program and other receivables, | | |
| net of allowance for doubtful accounts of $20,000 | 1,302,835 | 1,097,162 |
| Bequests receivable | 324,000 | 120,000 |
| Prepaid expenses | 373,606 | 438,411 |
| TOTAL CURRENT ASSETS | 16,668,518 | 18,271,316 |
| INVESTMENTS | 84,516,476 | 79,776,523 |
| BENEFICIAL INTEREST IN PERPETUAL TRUST | 797,337 | 754,568 |
| OPERATING LEASE RIGHT-OF-USE ASSET | 412,665 | - |
| PROPERTY AND EQUIPMENT, net | 31,557,825 | 29,334,378 |
| TOTAL ASSETS | $ 133,952,821 | $ 128,136,785 |

**LIABILITIES AND NET ASSETS**

| | 2023 | 2022 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Margin loan payable | $ - | $ 9,881,240 |
| Accounts payable | 1,270,603 | 985,102 |
| Accrued expenses | 1,741,540 | 1,364,511 |
| Current maturities of gift annuities payable | 20,193 | 23,606 |
| Current maturities of finance lease liabilities | 117,135 | 151,854 |
| Current maturities of operating lease liabilities | 160,862 | - |
| TOTAL CURRENT LIABILITIES | 3,310,333 | 12,406,313 |
| GIFT ANNUITIES PAYABLE, less current maturities | 198,692 | 207,487 |
| FINANCE LEASE LIABILITIES, less current maturities | - | 117,135 |
| OPERATING LEASE LIABILITIES, less current maturities | 257,108 | - |
| SECURITY DEPOSIT | 26,400 | 26,400 |
| TOTAL LIABILITIES | 3,792,533 | 12,757,335 |
| NET ASSETS | | |
| Net assets without donor restrictions | | |
| Undesignated | 58,808,059 | 47,900,348 |
| Board-designated | 69,034,695 | 66,334,007 |
| Total net assets without donor restrictions | 127,842,754 | 114,234,355 |
| Net assets with donor restrictions | 2,317,534 | 1,145,095 |
| TOTAL NET ASSETS | 130,160,288 | 115,379,450 |
| TOTAL LIABILITIES AND NET ASSETS | $ 133,952,821 | $ 128,136,785 |

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

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2023
(with comparative totals for the year ended June 30, 2022)

| | Without Donor Restrictions | With Donor Restrictions | 2023 Total | 2022 Total |
|---|---|---|---|---|
| SUPPORT AND REVENUES | | | | |
| Contributions: | | | | |
| Donated surplus food and commodities | $ 169,565,074 | $ - | $ 169,565,074 | $ 142,231,108 |
| Community contributions of cash and other financial assets | 45,608,345 | 1,520,197 | 47,128,542 | 42,623,470 |
| Other in-kind contributions | 1,137,659 | - | 1,137,659 | 683,334 |
| Government grants | 6,760,152 | - | 6,760,152 | 7,266,053 |
| Child nutrition - Kids Cafe | 2,901,304 | - | 2,901,304 | 3,138,878 |
| Source program | 1,183,371 | - | 1,183,371 | 645,740 |
| Skills center - CK catering | 21,212 | - | 21,212 | 19,257 |
| Investment return | 6,951,310 | - | 6,951,310 | (10,153,675) |
| Change in beneficial interest in perpetual trust | - | 42,769 | 42,769 | (199,333) |
| Miscellaneous and other revenue | 620,453 | - | 620,453 | 976,152 |
| Net assets released from restrictions | 390,527 | (390,527) | - | - |
| TOTAL SUPPORT AND REVENUES | 235,139,407 | 1,172,439 | 236,311,846 | 187,230,984 |
| EXPENSES | | | | |
| Program services | | | | |
| Community food assistance | 191,752,071 | - | 191,752,071 | 163,712,420 |
| Child nutrition | 5,125,665 | - | 5,125,665 | 5,099,715 |
| Senior nutrition | 11,301,898 | - | 11,301,898 | 7,484,947 |
| Skills center | 1,156,741 | - | 1,156,741 | 1,010,289 |
| Total program services | 209,336,375 | - | 209,336,375 | 177,307,371 |
| Supporting services | | | | |
| Fundraising and communications | 8,436,207 | - | 8,436,207 | 7,930,724 |
| General administration | 3,758,426 | - | 3,758,426 | 3,365,545 |
| Total supporting services | 12,194,633 | - | 12,194,633 | 11,296,269 |
| TOTAL EXPENSES | 221,531,008 | - | 221,531,008 | 188,603,640 |
| CHANGE IN NET ASSETS | 13,608,399 | 1,172,439 | 14,780,838 | (1,372,656) |
| NET ASSETS, BEGINNING OF YEAR | 114,234,355 | 1,145,095 | 115,379,450 | 116,752,106 |
| NET ASSETS, END OF YEAR | $ 127,842,754 | $ 2,317,534 | $ 130,160,288 | $ 115,379,450 |

See Notes to Consolidated Financial Statements

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

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

| | Community Food Assistance | Child Nutrition | Senior Nutrition | Skills Center | Total Program Services | Fundraising and Communications | General Administration | Total Expenses |
|---|---|---|---|---|---|---|---|---|
| Compensation | $ 10,871,336 | $ 1,589,468 | $ 610,552 | $ 897,979 | $ 13,969,335 | $ 1,824,555 | $ 2,217,890 | $ 18,011,780 |
| Food purchases | 9,180,270 | 2,906,910 | 1,701 | 33,415 | 12,122,296 | - | - | 12,122,296 |
| Occupancy costs | 2,021,860 | 94,117 | 113,551 | 6,600 | 2,236,128 | - | 100 | 2,236,228 |
| Depreciation | 2,217,084 | 70,343 | 124,515 | 2,829 | 2,414,771 | - | 34,858 | 2,449,629 |
| Donated food surplus | 159,428,482 | 12,142 | 10,006,461 | - | 169,447,085 | - | - | 169,447,085 |
| Education and training | 31,362 | 3,209 | 1,761 | 39,906 | 76,238 | 7,958 | 27,797 | 111,993 |
| Fuel | 1,311,625 | 94,395 | 73,663 | 304 | 1,479,987 | 1,209 | 1,504 | 1,482,700 |
| Insurance | 352,054 | 7,177 | 19,772 | - | 379,003 | 10,575 | 200,182 | 589,760 |
| Supplies | 2,755 | 10,612 | 155 | 16,490 | 30,012 | - | 14,966 | 44,978 |
| Other expenses | 1,045,548 | 24,112 | 58,720 | 122,181 | 1,250,561 | 30,245 | 56,042 | 1,336,848 |
| Packaging products | 1,303,732 | 194,537 | 72,282 | 1,522 | 1,572,073 | 13,605 | - | 1,585,678 |
| Postage/mail | 1,938 | 40 | 109 | - | 2,087 | 1,060,075 | 8,397 | 1,070,559 |
| Printing | 27,910 | 1,288 | 1,082 | 5,145 | 35,425 | 36,869 | 1,062 | 73,356 |
| Professional fees | 851,453 | 25,469 | 47,819 | 1,224 | 925,965 | 292,174 | 371,289 | 1,589,428 |
| Rental/lease | 1,508,709 | 30,759 | 84,732 | 5,205 | 1,629,405 | 256 | 43,793 | 1,673,454 |
| Fees and subscriptions | 224,618 | 3,875 | 8,007 | 10,988 | 247,488 | 652,178 | 168,284 | 1,067,950 |
| Technology | 158,692 | 5,665 | 8,912 | 5,968 | 179,237 | 179,737 | 545,736 | 904,710 |
| Travel | 201,420 | 13,871 | 11,312 | 6,985 | 233,588 | 28,650 | 66,526 | 328,764 |
| Vehicle costs | 1,011,223 | 37,676 | 56,792 | - | 1,105,691 | 7 | - | 1,105,698 |
| Donor communications | - | - | - | - | - | 2,143,084 | - | 2,143,084 |
| Community outreach | - | - | - | - | - | 2,155,030 | - | 2,155,030 |
| TOTAL FUNCTIONAL EXPENSES | $ 191,752,071 | $ 5,125,665 | $ 11,301,898 | $ 1,156,741 | $ 209,336,375 | $ 8,436,207 | $ 3,758,426 | $ 221,531,008 |

See Notes to Consolidated Financial Statements

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

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

| | Community Food Assistance | Child Nutrition | Senior Nutrition | Skills Center | Total Program Services | Fundraising and Communications | General Administration | Total Expenses |
|---|---|---|---|---|---|---|---|---|
| Compensation | $ 9,530,472 | $ 1,505,375 | $ 441,990 | $ 826,397 | $ 12,304,234 | $ 1,912,442 | $ 1,967,977 | $ 16,184,653 |
| Food purchases | 2,810,036 | 2,893,854 | - | 16,742 | 5,720,632 | - | - | 5,720,632 |
| Occupancy costs | 1,766,398 | 94,288 | 81,919 | 10,421 | 1,953,026 | 38 | 272 | 1,953,336 |
| Depreciation | 1,917,664 | 106,317 | 88,935 | 975 | 2,113,891 | - | 39,007 | 2,152,898 |
| Donated food surplus | 140,181,771 | 62,553 | 6,525,250 | - | 146,769,574 | - | - | 146,769,574 |
| Education and training | 18,561 | 546 | 861 | 21,588 | 41,556 | 13,739 | 11,885 | 67,180 |
| Fuel | 1,116,114 | 67,218 | 51,761 | 388 | 1,235,481 | 1,587 | 339 | 1,237,407 |
| Insurance | 241,963 | 6,984 | 11,221 | - | 260,168 | 10,151 | 194,342 | 464,661 |
| Supplies | 4,477 | 6,203 | 208 | 11,964 | 22,852 | 101 | 4,324 | 27,277 |
| Other expenses | 1,375,822 | 50,336 | 63,806 | 78,691 | 1,568,655 | 34,785 | 39,337 | 1,642,777 |
| Packaging products | 1,072,675 | 141,200 | 48,926 | 2,236 | 1,265,037 | 1,910 | - | 1,266,947 |
| Postage/mail | 2,881 | 309 | 134 | - | 3,324 | 140,792 | 6,999 | 151,115 |
| Printing | 43,476 | 1,051 | 1,689 | 8,144 | 54,360 | 41,213 | 1,189 | 96,762 |
| Professional fees | 800,316 | 27,532 | 37,116 | 7,200 | 872,164 | 403,990 | 426,202 | 1,702,356 |
| Rental/lease | 1,616,418 | 46,928 | 74,964 | 12,439 | 1,750,749 | 5,438 | 47,289 | 1,803,476 |
| Fees and subscriptions | 135,682 | 19,676 | 6,187 | 5,463 | 167,008 | 589,197 | 216,250 | 972,455 |
| Technology | 117,549 | 6,212 | 5,452 | 5,102 | 134,315 | 90,260 | 378,935 | 603,510 |
| Travel | 137,058 | 8,027 | 6,356 | 1,939 | 153,380 | 19,640 | 31,198 | 204,218 |
| Vehicle costs | 823,087 | 55,106 | 38,172 | 600 | 916,965 | 275 | - | 917,240 |
| Donor communications | - | - | - | - | - | 2,587,576 | - | 2,587,576 |
| Community outreach | - | - | - | - | - | 2,077,590 | - | 2,077,590 |
| TOTAL FUNCTIONAL EXPENSES | $ 163,712,420 | $ 5,099,715 | $ 7,484,947 | $ 1,010,289 | $ 177,307,371 | $ 7,930,724 | $ 3,365,545 | $ 188,603,640 |

See Notes to Consolidated Financial Statements

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2023
(with comparative totals for the year ended June 30, 2022)

| | 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 14,780,838 | $ (1,372,656) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,449,629 | 2,152,898 |
| Non-cash lease expense | 155,348 | - |
| Loss on sale/disposal of property and equipment | 4,351 | - |
| Contributions restricted to investment in property and equipment | (50,000) | (45,000) |
| Change in beneficial interest in perpetual trust | (42,769) | 199,333 |
| Realized and unrealized (gains) losses on investments | (4,732,648) | 12,281,959 |
| (Increase) decrease in assets: | | |
| Inventory | 231,461 | 3,919,012 |
| Program and other receivables | (205,673) | 509,732 |
| Pledges receivable | - | 20,000 |
| Bequests receivable | (204,000) | 30,000 |
| Prepaid expenses | 64,805 | (93,926) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 167,572 | (17,384) |
| Accrued expenses | 377,029 | 164,075 |
| Security deposit | - | 26,400 |
| Gift annuities payable | (12,208) | (48,159) |
| Operating lease liabilities | (150,043) | - |
| Net cash provided by operating activities | 12,833,692 | 17,726,284 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (4,559,498) | (12,195,107) |
| Purchase of investments | (4,908,585) | (13,790,649) |
| Proceeds from sale of investments | 4,901,280 | 412,974 |
| Net cash used in investing activities | (4,566,803) | (25,572,782) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from margin loan payable | - | 9,963,905 |
| Payments on margin loan payable | (9,881,240) | (82,665) |
| Collection of contributions restricted to investment in property and equipment | 50,000 | 45,000 |
| Principal payments on finance lease liabilities | (151,854) | (275,683) |
| Net cash (used in) provided by financing activities | (9,983,094) | 9,650,557 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,716,205) | 1,804,059 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 8,725,383 | 6,921,324 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 7,009,178 | $ 8,725,383 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | $ 98,514 | $ 149,460 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Right-of-use assets obtained in exchange for new operating lease liabilites as a result of adoption of ASC 842 | $ 552,081 | $ - |
| Right-of-use assets obtained in exchange for new operating lease liabilites | $ 15,932 | $ - |
| Purchases of property and equipment included in accounts payable | $ 117,929 | $ - |

## (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 the gathering and distributing of food while encouraging self-sufficiency, collaboration, advocacy and education. St. Mary's is supported by various sources including community donations and government funding. Its main programs are described below:

- **Community Food Assistance** - Community Food Assistance is provided to individuals and families in need free of charge. This food assistance program is meant as a temporary supplement until more sustainable solutions are in place. The food distributed to our neighbors consists of Emergency Food boxes containing non-perishable USDA commodities, donated, and purchased goods along with fresh produce, protein, and dairy items. The distribution of these food items is accomplished through client service centers in Phoenix, Surprise, and Chinle, AZ, 800 affiliate agency partners, mobile “pop up” distributions, and home deliveries for neighbors who are unable to make it to one of the distribution sites. Community Food Assistance distributions sites currently operate in 7 of the 15 counties in Arizona.

- **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 275 schools, community centers, churches and other neighborhood groups to provide 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.

- **Senior Nutrition** - Senior Nutrition consists of the Commodity Supplemental Food Program ("CSFP"). This program is a tailored box specifically prescribed by the USDA with the goal of improving the health of people 60 and older by supplementing their diets with nutritious non-perishable commodities. This program is partially funded with federal funds and is often supplemented with fresh produce, protein, and dairy.

- **Skills Center** - The Skills Center consists of the Community Kitchen, CK Catering, and the Logistics, Inventory, Forklift, and Training (“LIFT”) programs. Community Kitchen is a life skills and food service training program for those with barriers to employment. LIFT is a hands-on training program that teaches adults with barriers to employment to be successful in the warehouse and logistics industry. Students gain the skills to get jobs offering livable wages and opportunities for advancement through hands-on training as well as classroom studies.

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.

In June 2023, the Organization formed the SMFB NMTC Support Corp (“NMTC Support”) to facilitate the New Markets Tax Credit (“NMTC”) Program. NMTC Support is an Arizona nonprofit entity exempt from income taxes under section 501 (c)(3) of the Code. Through June 30, 2023, NMTC Support had no activity.

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

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

**Basis of presentation** - The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under 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.

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 consolidated 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, 2022, 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”).

**(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 (Note 2). Purchased inventories are stated at the lower of cost, as determined using the first-in, first-out (“FIFO”) basis, or net realizable value.

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.

**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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, there were no pledges receivable outstanding.

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

**Property and equipment** - Purchased property and equipment are valued at cost. 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 finance 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.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as revenues in the net assets with donor restrictions class. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

**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, 2023 or 2022.

**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 June 30, 2023 and 2022.

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

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 amounts reported in the consolidated statement of financial position.

**Fair value measurement** - 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 606, *Revenue from Contracts with Customers*, as described below.

Source program revenues from sales of purchased food items to agencies 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, 2023 and 2022, 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)

**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 statement 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, 2023 and 2022, 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, 2023 and 2022, the remaining amount of conditional contributions under these governmental grants is not material to the consolidated financial statements.

**Contributions** - 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.

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.

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

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 non-financial assets (in-kinds)** - In September 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization implemented ASU 2020-07 during the year ended June 30, 2022 and presents contributed nonfinancial assets separately on the consolidated statement of activities and change in net assets.

Donated materials are recorded at their estimated fair value at the date of receipt. Donated services are recognized as contributions in accordance with FASB 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. See Note 2.

**Beneficial interest in perpetual trust** - The Organization is the sole beneficiary of a perpetual trust that is held and controlled by a third party in perpetuity. Under perpetual trust agreements, the Organization records the contribution with donor restriction at the fair value of the Organization’s beneficial interest in the trust assets. Income earned on the trust assets is recorded as income from beneficial interest in perpetual trust without donor restriction in the accompanying consolidated statement of activities and change in net assets, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in beneficial interest in perpetual trust in the with donor restriction net asset class. The trust's assets include primarily mutual funds and government bonds.

**Advertising** - Advertising costs are expensed as incurred. Advertising expenses totaled $134,929 and $76,815, respectively, for the years ended June 30, 2023 and 2022.

**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.

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

**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, 2023 and 2022, 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 2020, 2021, and 2022 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2023 returns had not yet been filed.

**Leases** - Effective July 1, 2022, the Organization adopted ASC Topic 842, *Leases*, using the modified retrospective approach. Upon adoption of Topic 842, the Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to not reassess whether a contract is or contains a lease, carry forward the historical lease classification, and use the hindsight approach when determining the lease term. In addition, the Organization made an accounting policy election not to separate non-lease components from lease components for all existing classes of underlying assets. The Organization also made an accounting policy election to not record right of use ("ROU") assets and lease liabilities for leases with an initial term of twelve months or less on the accompanying consolidated statement of financial position.

The Organization determines if a contract or arrangement is, or contains, a lease at inception. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Organization has elected the private company accounting alternative to use a risk-free discount rate for all classes of underlying assets based on the information available at commencement date in determining the present value of lease payments. The ROU assets include any prepaid lease payments and additional direct costs and excludes lease incentives. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

The adoption did not have a material impact on the Organization's consolidated statement of financial position, statement of activities and change in net assets and had no impact on cash flows from operations. Adoption of the standard resulted in the recording of operating lease ROU assets and lease liabilities of $552,081 as of July 1, 2022. In addition, the Organization reclassified $233,381 of capital lease assets as finance lease right-of-use assets and $268,989 of its capital lease liabilities as finance lease liabilities on its consolidated statement of financial position. See Note 11 for further disclosure regarding Topic 842.

## (2) Donated non-financial assets (in-kinds)

The Organization receives donated food from various private and public sources consisting primarily of (i) direct donation drop off at one of the Organization's warehouses, (ii) food rescued from retail grocery partners directly by the Organization and its partner agencies as part of the Grocery Rescue program, and (iii) online marketplace distributions, which are picked up either by the Organization or a partner agency and delivered to a partner agency location for distribution. The Organization reports the fair value of donated food over which it has control (i.e., variance power) as contributions without donor restrictions, and immediately thereafter, as expense when distributed for program purposes and received by the recipients. Donated surplus food and commodities are typically utilized in the Organization's programs. For the years ended June 30, 2023 and 2022, the Organization did not monetize any donated surplus food and commodities.

The Organization has entered into written contracts with retail grocery and partner agencies to distribute food products directly. These contracts provide the Organization explicit variance power and authority over the distribution of the food. During the years ended June 30, 2023 and 2022, 26,067,321 pounds and 19,342,062 pounds, respectively, were donated under these contract arrangements. Donations made directly to local partners with whom the Organization does not have a written agreement are not included in the consolidated financial statements because the Organization does not have written agreements with such donors granting the Organization explicit variance power and authority over the distribution of such donated goods and services.

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, 2023 and 2022, donated food was valued at a composite price of $1.57 and $1.53 per pound, respectively, resulting in approximately 108,003,000 pounds and 92,962,000 pounds, respectively, reflected in the accompanying consolidated statement 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. These values were determined based upon calendar year 2022 and 2021 studies performed by Feeding America. Each of the annual studies involves a review of 22 product categories and wholesale prices using a national wholesaler's pricing catalogs. Other independent sources may also be used as necessary for items not included in the catalogs (Level 2 inputs). The average value of one pound of donated product will vary from year-to-year based on the mix of product items donated. As part of the study, Feeding America analyzes and reviews the results to determine the accuracy and understand the key components of the valuation and the year-over-year changes.

In addition to donated surplus food and commodities, the Organization receives various other in-kind contributions in the form of donated services, supplies, rent and discounted rentals on transportation equipment. For the years ended June 30, other in-kind contributions consist of the following:

| Contribution | Used For | 2023 | 2022 |
|---|---|---|---|
| Tractor rental | Food distribution and transportation | $ 353,190 | $ 320,400 |
| Truck parking | Food distribution and transportation | 60,000 | 60,000 |
| Freight subsidy | Food distribution and transportation | 382,878 | - |
| Food deliveries | Food distribution and transportation | 34,646 | - |
| Building | Distribution center for various programs | 294,994 | 277,642 |
| Donated items | Other program support | 7,451 | 25,292 |
| Legal services | General administration | 4,500 | - |
| | | $ 1,137,659 | $ 683,334 |

**(2) Donated non-financial assets (in-kinds) (continued)**

Other in-kind contributions are valued using estimated prices of identical or similar services and products in the local retail markets (Level 2 inputs) based on information provided by third parties and independent outside agencies. The Organization’s general practice is to utilize donated items at the program level for which the items were intended to support. During the years ended June 30, 2023 and 2022, the Organization did not monetize any other in-kind contributions and there were no donor restrictions on the other in-kind contributions.

The Organization entered into an agreement in September 1998 to receive donated distribution center space 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 $0.85 and $0.80 per square foot at June 30, 2023 and 2022, respectively, which is valued using average local market rate of rents of similar class and quality (Level 2 inputs).

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. This support has not been recorded as a component of in-kind contribution revenue as it does not meet the recognition criteria under FASB ASC 958-605. During the year ended June 30, 2023, the Organization received the benefit of approximately 175,000 hours from approximately 74,000 volunteers. During the year ended June 30, 2022, the Organization received the benefit of approximately 140,000 hours from approximately 56,000 volunteers.

**(3) 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, 2023 and 2022, 80% and 93%, 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, 2023 and 2022, 100% is due from three and two donors, respectively.

Of donated surplus food and commodities revenues during the years ended June 30, 2023 and 2022, 25% and 19%, respectively, was donated from two organizations and one organization, respectively.

## (4) Inventory

Inventory consists of the following at June 30:

| | 2023 | 2022 |
|---|---|---|
| Donated food inventory | $ 4,190,183 | $ 4,804,352 |
| Government food | 2,542,995 | 1,810,836 |
| Purchased food inventory | 912,076 | 1,260,733 |
| Other inventory | 13,645 | 14,439 |
| Total cost and donated value | $ 7,658,899 | $ 7,890,360 |

## (5) Investments

Investments consist of the following at June 30:

| | 2023 | 2022 |
|---|---|---|
| Cash and money market funds | $ 13,774,672 | $ 2,413,740 |
| Mutual funds: | | |
| Large cap equity | 34,867,312 | 266,517 |
| Small cap equity | 9,532,294 | - |
| Other equity | 2,850,536 | 9,583 |
| Fixed income | 12,674,540 | 13,863,459 |
| Fixed income: | | |
| Corporate bonds | - | 8,186,136 |
| Government bonds | 8,190,452 | 15,405,630 |
| Other | - | 852,592 |
| Market linked certificates of deposit | 218,227 | 648,950 |
| Market linked notes and securities | 1,261,760 | 464,680 |
| Exchange traded funds | 1,144,745 | 36,861,246 |
| Hedge funds | 1,938 | 803,990 |
| Total | $ 84,516,476 | $ 79,776,523 |

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

| | 2023 | 2022 |
|---|---|---|
| Interest and dividends | $ 2,352,105 | $ 2,466,866 |
| Unrealized investment gains (losses) | 6,405,105 | (13,831,800) |
| Realized investment gains (losses) | (1,672,457) | 1,549,841 |
| Investment fees | (133,443) | (338,582) |
| Total investment return | $ 6,951,310 | $ (10,153,675) |

## (6) 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, 2023 and 2022, the present value of the annuity payment liability is $218,885 and $231,093, respectively. To calculate the present value of the charitable gift annuity, management used the applicable federal rate of approximately 5% as of June 30, 2023 and 2022. Charitable gift annuities are estimated to mature through 2045. Assets of the Organization that are reserved for charitable gift annuities totaled $386,228 and $385,098 at June 30, 2023 and 2022, respectively, and are included within investments in the accompanying consolidated statements of financial position.

## (7) Property and equipment

Property and equipment consist of the following at June 30:

| | 2023 | 2022 |
|---|---|---|
| Land | $ 3,823,593 | $ 3,682,865 |
| Buildings and improvements | 35,161,348 | 32,416,761 |
| Furniture, fixtures, and equipment | 6,903,913 | 6,373,979 |
| Vehicles | 5,322,797 | 3,405,853 |
| Equipment held under finance leases | 1,857,962 | 2,188,004 |
| | 53,069,613 | 48,067,462 |
| Accumulated depreciation and amortization | (21,941,110) | (19,952,669) |
| | 31,128,503 | 28,114,793 |
| Construction in progress | 429,322 | 1,219,585 |
| Property and equipment, net | $ 31,557,825 | $ 29,334,378 |

Depreciation expense charged to operations was $2,449,629 and $2,152,898, respectively, for the years ended June 30, 2023 and 2022.

In August 2021, the Organization entered into an agreement for the purchase of two specific parcels of land at an aggregate purchase price of $9,985,000. Further, in August 2022, the Organization entered into an agreement for the purchase of an additional parcel of land at an aggregate purchase price of $980,000. The purchases were funded through the use of the Margin Loan (Note 9).

At June 30, 2023, construction in progress primarily represents remodels to the existing warehouses and remodels and equipment for the properties purchased during the year ended June 30, 2023. Construction in progress is being funded through the use of operating cash and the work is expected to be completed and assets placed into service during fiscal year 2024.

## (8) Fair value measurement

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of June 30, 2023:

| | (Level 1) | (Level 2) | (Level 3) | Total |
|---|---|---|---|---|
| Investments: | | | | |
| Cash and money market funds | $ 13,774,672 | $ - | $ - | $ 13,774,672 |
| Mutual funds: | | | | |
| Large cap equity | 34,867,312 | - | - | 34,867,312 |
| Small cap equity | 9,532,294 | | | 9,532,294 |
| Other equity | 2,850,536 | - | - | 2,850,536 |
| Fixed income | 12,674,540 | - | - | 12,674,540 |
| Fixed income: | | | | |
| Government bonds | 8,190,452 | - | - | 8,190,452 |
| Market linked certificates of deposit | 218,227 | - | - | 218,227 |
| Market linked notes and securities | - | - | 1,261,760 | 1,261,760 |
| Exchange traded funds | 1,144,745 | - | - | 1,144,745 |
| Total investments | 83,252,778 | - | 1,261,760 | 84,514,538 |
| Beneficial interest in perpetual trust | - | - | 797,337 | 797,337 |
| Total | $ 83,252,778 | $ - | $ 2,059,097 | $ 85,311,875 |

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of June 30, 2022:

| | (Level 1) | (Level 2) | (Level 3) | Total |
|---|---|---|---|---|
| Investments: | | | | |
| Cash and money market funds | $ 2,413,740 | $ - | $ - | $ 2,413,740 |
| Mutual funds: | | | | |
| Large cap equity | 266,517 | - | - | 266,517 |
| Small cap equity | 9,583 | - | - | 9,583 |
| Other equity | 13,863,459 | - | - | 13,863,459 |
| Fixed income: | | | | |
| Corporate bonds | 7,423,400 | 762,736 | - | 8,186,136 |
| Government bonds | 10,511,987 | 4,893,643 | - | 15,405,630 |
| Other | 852,592 | - | - | 852,592 |
| Market linked certificates of deposit | - | - | 648,950 | 648,950 |
| Market linked notes and securities | - | 128,820 | 335,860 | 464,680 |
| Exchange traded funds | 36,861,246 | - | - | 36,861,246 |
| Total investments | 72,202,524 | 5,785,199 | 984,810 | 78,972,533 |
| Beneficial interest in perpetual trust | - | - | 754,568 | 754,568 |
| Total | $ 72,202,524 | $ 5,785,199 | $ 1,739,378 | $ 79,727,101 |

## (8) Fair value measurement (continued)

The Organization currently has no other financial instruments subject to fair value measurement on a recurring basis.

*Beneficial interest in perpetual trust* - The fair value of the beneficial interest agreement is recorded at the fair value of the investment which is held by a third-party trustee and then adjusted for the Organization's interest in the assets. The fair value of the beneficial interest is estimated to approximate the fair value of the underlying assets of the trust itself. While the underlying assets of the trust are primarily observable, the fair value of beneficial interest itself is not observable in markets and, accordingly, this trust is classified within Level 3 of the valuation hierarchy.

In accordance with FASB ASC 820, the Organization is required to disclose the nature and risks of investments reported at net asset value ("NAV"). Investments reported at NAV as a practical expedient are excluded from the fair value hierarchy.

*Hedge fund* – The Organization invests in the Millennium International HedgeFocus Fund Ltd ("Millennium International"). Millennium International is a feeder fund that indirectly invests predominantly in Millennium Partners, L.P ("MP"). To meet its objectives, the fund allocates capital across a diverse set of strategies and asset classes seeking the optimal mix of return and risk. Those strategies include relative value fundamental equity, quantitative strategies, equity arbitrage and fixed income strategies, among others. The primary objective of the fund is to achieve absolute returns with minimal risks rather than outperform a given benchmark or asset class. The investment in the fund totaled $1,938 and $803,990 as of June 30, 2023 and 2022, respectively. The investment can be redeemed quarterly by providing 90 days of advanced notice, and the redemption period does not begin until after an initial one year lock up period, as defined in the agreement.

There were no unfunded commitments to the fund at June 30, 2023 and 2022.

## (9) Margin loan payable

Effective July 27, 2021, the Organization added a margin loan feature to their investment portfolio held with Wells Fargo. Interest was charged on a daily basis based on the total market value of the underlying assets, compounded daily, at a variable rate (2.45% at June 30, 2022) negotiated between the lender and the Organization. Credit was extended based on the amount and types of securities held in the investment accounts, which generally ranged as a maximum of 60-90% of the security account balances. The available borrowing base at June 30, 2022 was $11,624,209.

The margin loan was collateralized by certain investment assets held by the Organization with the same financial institution and was generally due on demand. During the years ended June 30, 2023 and 2022, the Organization withdrew funds using the margin loan to fund the parcels of land acquired during the respective fiscal years (see Note 7). At June 30, 2022, the Organization had an outstanding balance of $9,881,240. During the year ended June 30, 2023, the Organization repaid the outstanding balance on the margin loan in full and terminated the agreement. Interest expense incurred on the margin loan totaled approximately $72,300 and $103,000, respectively, for the years ended June 30, 2023 and 2022.

## (10) 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 $69,034,695 and $66,334,007 respectively, as of June 30, 2023 and 2022.

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

| | 2023 | 2022 |
|---|---|---|
| Purpose restrictions | $ 1,513,738 | $ 390,527 |
| Time restrictions | 43,000 | - |
| Restricted in perpetuity | 760,796 | 754,568 |
| Total net assets with donor restrictions | $ 2,317,534 | $ 1,145,095 |

Net assets with donor restrictions released from restriction during the year ended June 30, 2023 are as follows:

| | |
|---|---|
| Satisfaction of purpose restriction: | |
| Equipment and building improvements | $ 295,000 |
| Agency development | 84,039 |
| Skills center | 11,488 |
| Total net assets with donor restrictions released from restrictions | $ 390,527 |

## (11) Leasing activities

*Lessee activities* - The Organization has entered into various finance lease agreements for vehicles expiring through March 2024 and operating lease agreements for office and other equipment, and office and warehouse space, expiring through June 2029. Future minimum lease payments for operating leases include approximately $129,000 related to options to extend lease terms that are reasonably certain of being exercised. It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases.

The operating lease right-of-use assets and operating and finance lease liabilities, current and long-term, are recorded as individual, separate items in the consolidated statements of financial position as of June 30, 2023 and 2022.

The following summarizes the line items in the consolidated statements of financial position which include amounts for financing lease right-of-use assets as of June 30:

## (11) Leasing activities (continued)

| | 2023 | 2022 |
|---|---|---|
| Vehicle and other equipment | $ 1,857,962 | $ 2,188,004 |
| Accumulated depreciation and amortization | (1,758,673) | (1,954,623) |
| | $ 99,289 | $ 233,381 |

The Organization's lease agreements typically require reimbursement for real estate taxes, common area maintenance and insurance. These costs are not fixed and therefore are expensed as incurred as variable lease costs and not included in the right-of-use assets or lease liabilities balances. Amortization expense under the finance leases is included in depreciation expense. Operating lease expense is included under rental/lease, technology, and postage/mail expenses in the accompanying consolidated statements of functional expenses. The following summarizes the components of lease expense and cash flow information related to leases for the years ended June 30:

| | 2023 | 2022 |
|---|---|---|
| Operating lease expense | $ 168,097 | $ 150,942 |
| Short term operating lease expense | $ 867,682 | $ 963,672 |
| Variable operating lease expense | $ 8,771 | $ 10,224 |
| Finance lease costs: | | |
| Amortization of lease assets included in depreciation expense | $ 134,092 | $ 122,133 |
| Interest on lease liabilities included in interest expense | 25,002 | 47,336 |
| Total finance lease costs | $ 159,094 | $ 169,469 |
| Operating cash flow from operating leases | $ 162,791 | $ - |
| Operating cash flow from finance leases | $ 25,002 | $ 47,336 |
| Financing cash flow from finance leases | $ 151,854 | $ 275,683 |

Future maturities of lease liabilities as of June 30, 2023 are as follows:

| Year Ending June 30, | Operating | Finance |
|---|---|---|
| 2024 | $ 160,862 | $ 117,135 |
| 2025 | 138,263 | - |
| 2026 | 65,359 | - |
| 2027 | 47,463 | - |
| 2028 | 9,455 | - |
| Thereafter | 6,000 | - |
| Total lease payments | 427,402 | 117,135 |
| Less: interest | (9,432) | - |
| Present value of lease liabilities | $ 417,970 | $ 117,135 |

## (11) Leasing activities (continued)

The following summarizes the weighted average remaining lease terms and discount rates applied as of June 30, 2023:

| | Operating | Finance |
|---|---|---|
| Weighted Average Remaining Lease Term | 3.08 | 0.75 |
| Weighted Average Discount Rate | 2.87% | 4.73% |

*Lessor activities* - The Organization leases office space to unrelated third parties under non-cancelable operating lease agreements. The Organization accounts these agreements as operating leases with rental income recognized ratably over the term of the arrangements. Rental income is included under miscellaneous and other revenue in the accompanying consolidated statements of activities and change in net assets and totaled $475,262 and $482,123, respectively, during the years ended June 30, 2023 and 2022. There is no transfer of ownership to the customers at the end of the leases and the terms do not include a bargain purchase option. The leasing arrangements do not include substantive substitution rights and generally do not require significant assumptions or judgments. The Organization combines all lease and non-lease components of lease contracts for which the timing and pattern of transfer are the same and the lease component meets the classification of an operating lease.

Rental payments include base monthly fees and the portion of maintenance, insurance and taxes that the tenants are responsible for. Minimum lease payments due from the tenants total approximately $178,000 and $23,000 for fiscal years 2024 and 2025, respectively.

## (12) Retirement plans

The Organization participates in a qualified 401(k) defined contribution retirement plan (the "Plan") for eligible employees. Employees who have attained the age of 21 are eligible to participate in the Plan after 30 days of employment. Participants are automatically enrolled at a 6% elective deferral rate. The Organization has a discretionary match policy whereby employees receive an employer match on the first 3% of their eligible pay contributed to the Plan and 50% of the next 3% of their eligible pay contributed to the Plan. Contributions to the Plan under this arrangement were $506,864 and $429,514, respectively, for the years ended June 30, 2023 and 2022.

Effective February 1, 2021 the Organization established a Non-Qualified 457(b) deferred compensation retirement plan (the "Non-Qualified 457(b) Plan") covering certain members of senior management. The Non-Qualified 457(b) Plan provides for employee contributions, and at the discretion of the Organization, employer credits may be authorized each year. Contributions by the Organization to the Non-Qualified 457(b) Plan totaled approximately $0 and $89,000 during the years ended June 30, 2023 and 2022, respectively. An employee is 100% vested in any elective contributions to the Non-Qualified 457(b) Plan, plus any investment earnings or losses. Distributions from the 457(b) Plan during the years ended June 30, 2023 and 2022, totaled approximately $20,000 and $3,000, respectively. As of June 30, 2023 and 2022, approximately $65,000 and $81,000, respectively, has been accrued and is included in accrued expenses in the accompanying consolidated statements of financial position, representing the Organization's accumulated undistributed contributions to the Non-Qualified 457(b) Plan. At June 30, 2023 and 2022, while the Organization has set aside approximately $65,000 and $81,000, respectively, in a separate investment account (representing accumulated participant contributions, plus earnings thereon), these funds remain available to the general creditors of the Organization.

## (13) Risks and uncertainties

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.

## (14) 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, 2023 and 2022, 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.

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 7,009,178 | $ 8,725,383 |
| Program and other receivables, net | 1,302,835 | 1,097,162 |
| Bequests receivable | 324,000 | 120,000 |
| Investments | 84,516,476 | 79,776,523 |
| Total financial assets | 93,152,489 | 89,719,068 |
| Less: Board designated net assets | (69,034,695) | (66,334,007) |
| Less: Investments designated to fund 457(b) Plan | (65,221) | (80,855) |
| Less: Investments designated to fund gift annuities | (386,228) | (385,098) |
| Less: Net assets with donor restriction | (2,317,534) | (1,145,095) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 21,348,811 | $ 21,774,013 |

While the Organization's investments are classified as long-term in the accompanying consolidated statement 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.

**(15) Subsequent events**

The Organization has evaluated events through November 22, 2023, which is the date the consolidated financial statements were available to be issued.

In August 2023, the Organization entered into a series of transactions in order to make additional funds available to it through the NMTC Program to fund the renovation and expansion of the Organization's food distribution campus. The NMTC Program is an alternative financing complement to conventional capital sources and is patterned after the federal New Markets Tax Credit Program. The purpose of the program is to encourage capital investment in low-income communities and to create new jobs. The NMTC Program permits investors/note holders to claim a credit against federal income taxes for qualified equity investments ("QEIs") in designated community development entities ("CDEs"). These designated CDEs must use substantially all (85%) of the proceeds to make qualified low-income community investments ("QLICIs"). The investor is provided with a tax credit, which is claimed over a seven-year period. Under the NMTC Program, a "lender" into the program cannot be the ultimate beneficiary of the tax credit; therefore, the NMTC Support was created to be the lender, with the Organization being the ultimate beneficiary of the tax credits.

On August 2, 2023, the Organization contributed an aggregate $24,723,000 to NMTC Support, which loaned the newly formed SMFB Investment Fund, LLC (the "Fund"), a Delaware limited liability company, $24,723,000 in exchange for a note receivable. The note receivable from the Fund bears a fixed interest rate of 1.387%, requires quarterly payments of principal and interest beginning September 15, 2023, and matures on August 1, 2049. The Fund then made a QEI in Bumble Bee NMTC, LLC ("Bumble Bee"), which is majority owned by the Fund and is a designated CDE. Bumble Bee then made two loans in the amounts of $24,723,000 (Note A) and $9,577,000 (Note B) to the Organization. Notes A and B, payable to Bumble Bee, are structured as payments of interest only through August 2, 2030, at a fixed rate of 1%, followed by quarterly payments of principal and interest through maturity on August 1, 2053. Notes A and B are secured by substantially all assets of the Organization and require the Organization to be in compliance with certain financial and nonfinancial requirements. At the end of the seven-year tax credit period, assuming the Organization is in compliance with all of the terms and conditions of the NMTC agreement, the Organization can exercise a put option at which time Note B will be forgiven.

These note agreements require the Organization to maintain cash received restricted for the construction of the project in a separate account. The Fund and Bumble Bee have also entered into a Fee and Services Agreement for management of the project which requires a separate fee reserve account established for purposes of maintaining sufficient funds in a controlled account to cover the costs of such expenses over a period defined per the agreement and totaling approximately $1,350,000. Debt issuance costs incurred in connection with the transactions totaled approximately $700,000 and are being amortized on a straight-line basis over the term of Notes A and B.

## ADDITIONAL INFORMATION

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

## ADDITIONAL INFORMATION

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2023

### A S S E T S

| | St. Mary's | Foundation | Eliminations | Total |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ 7,006,781 | $ 2,397 | $ - | $ 7,009,178 |
| Inventory | 7,658,899 | - | - | 7,658,899 |
| Program and other receivables, net of allowance for doubtful accounts of $20,000 | 1,302,835 | - | - | 1,302,835 |
| Bequests receivable | 324,000 | - | - | 324,000 |
| Prepaid expenses | 373,606 | - | - | 373,606 |
| TOTAL CURRENT ASSETS | 16,666,121 | 2,397 | - | 16,668,518 |
| INVESTMENTS | 15,484,178 | 69,032,298 | - | 84,516,476 |
| BENEFICIAL INTEREST IN PERPETUAL TRUST | 797,337 | - | - | 797,337 |
| OPERATING LEASE RIGHT-OF-USE ASSET | 412,665 | - | - | 412,665 |
| PROPERTY AND EQUIPMENT, net | 31,557,825 | - | - | 31,557,825 |
| TOTAL ASSETS | $ 64,918,126 | $ 69,034,695 | $ - | $ 133,952,821 |

### 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 | $ 1,270,603 | $ - | $ - | $ 1,270,603 |
| Accrued expenses | 1,741,540 | - | - | 1,741,540 |
| Current maturities of gift annuities payable | 20,193 | - | - | 20,193 |
| Current maturities of finance lease liabilities | 117,135 | - | - | 117,135 |
| Current maturities of operating lease liabilities | 160,862 | - | - | 160,862 |
| TOTAL CURRENT LIABILITIES | 3,310,333 | - | - | 3,310,333 |
| GIFT ANNUITIES PAYABLE, less current maturities | 198,692 | - | - | 198,692 |
| OPERATING LEASE LIABILITIES, less current maturities | 257,108 | - | - | 257,108 |
| SECURITY DEPOSIT | 26,400 | - | - | 26,400 |
| TOTAL LIABILITIES | 3,792,533 | - | - | 3,792,533 |
| NET ASSETS | 61,125,593 | 69,034,695 | - | 130,160,288 |
| TOTAL LIABILITIES AND NET ASSETS | $ 64,918,126 | $ 69,034,695 | $ - | $ 133,952,821 |

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

## ADDITIONAL INFORMATION

### CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2023

| | St. Mary's | Foundation | Eliminations | Total |
|---|---|---|---|---|
| SUPPORT AND REVENUES | | | | |
| Contributions: | | | | |
| Donated surplus food and commodities | $ 169,565,074 | $ - | $ - | $ 169,565,074 |
| Community contributions of cash and other financial assets | 51,128,542 | - | (4,000,000) | 47,128,542 |
| Other in-kind contributions | 1,137,659 | - | - | 1,137,659 |
| Government grants | 6,760,152 | - | - | 6,760,152 |
| Child nutrition - Kids Cafe | 2,901,304 | - | - | 2,901,304 |
| Source program | 1,183,371 | - | - | 1,183,371 |
| Skills center - CK catering | 21,212 | - | - | 21,212 |
| Investment return | 250,160 | 6,701,150 | - | 6,951,310 |
| Change in beneficial interest in perpetual trust | 42,769 | - | - | 42,769 |
| Miscellaneous and other revenue | 620,453 | - | - | 620,453 |
| TOTAL SUPPORT AND REVENUES | 233,610,696 | 6,701,150 | (4,000,000) | 236,311,846 |
| EXPENSES | | | | |
| Program services | | | | |
| Community food assistance | 191,752,071 | - | - | 191,752,071 |
| Child nutrition | 5,125,665 | - | - | 5,125,665 |
| Senior nutrition | 11,301,898 | - | - | 11,301,898 |
| Skills center | 1,156,741 | - | - | 1,156,741 |
| Grants | - | 4,000,000 | (4,000,000) | - |
| Total program services | 209,336,375 | 4,000,000 | (4,000,000) | 209,336,375 |
| Supporting services | | | | |
| Fundraising and communications | 8,436,207 | - | - | 8,436,207 |
| General administration | 3,757,964 | 462 | - | 3,758,426 |
| Total supporting services | 12,194,171 | 462 | - | 12,194,633 |
| TOTAL EXPENSES | 221,530,546 | 4,000,462 | (4,000,000) | 221,531,008 |
| CHANGE IN NET ASSETS | 12,080,150 | 2,700,688 | - | 14,780,838 |
| NET ASSETS, BEGINNING OF YEAR | 49,045,443 | 66,334,007 | - | 115,379,450 |
| NET ASSETS, END OF YEAR | $ 61,125,593 | $ 69,034,695 | $ - | $ 130,160,288 |

**UNIFORM GUIDANCE**
**SUPPLEMENTARY REPORTS**

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

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

| Federal Grantor / Pass-Through Agency / Program or Cluster Title | Assistance Listing Number | Pass-Through Grantor's Identifying Number | Passed Through to Subrecipients | 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 | CTR052593 | $ - | $ 1,187,887 |
| Commodity Supplemental Food Program (Food Commodities) | 10.565 | Commodity Food | 4,756,034 | 9,971,026 |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | CTR052635 | - | 1,948,646 |
| COVID-19 Emergency Food Assistance Program (Administrative Costs) | 10.568 | CTR052635 | - | 1,906,388 |
| Emergency Food Assistance Program (Food Commodities) | 10.569 | Commodity Food | 16,027,142 | 25,093,099 |
| Total Food Distribution Cluster (10.565, 10.568 and 10.569) | | | 20,783,176 | 40,107,046 |
| Passed through Arizona Department of Economic Security | | | | |
| Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants | 10.537 | ADES18-184025 | - | 18,385 |
| Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants | 10.537 | CTR061897 | - | 375,745 |
| Total 10.537 | | | - | 394,130 |
| Passed through Arizona Department of Education | | | | |
| Child and Adult Care Food Program (Child Feeding) | 10.558 | KR02-1170-ALS | - | 2,036,442 |
| Passed through Arizona Department of Education | | | | |
| Summer Food Service Program for Children (Summer Feeding) | 10.559 | ED09-0001 | - | 867,328 |
| **Total U.S. Department of Agriculture** | | | 20,783,176 | 43,404,946 |
| **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT** | | | | |
| Passed through Arizona Department of Housing | | | | |
| COVID-19 Community Development Block Grants | 14.228 | 111-22 | 585,352 | 348,576 |
| **Total U.S. Department of Housing and Urban Development** | | | 585,352 | 348,576 |
| **U.S. DEPARTMENT OF TREASURY** | | | | |
| Passed through City of Avondale | | | | |
| COVID-19 Coronavirus State and Local Fiscal Recovery Funds (SLFRF) | 21.027 | Unknown | - | 7,000 |
| Passed through City of Phoenix | | | | |
| COVID-19 Coronavirus State and Local Fiscal Recovery Funds (SLFRF) | 21.027 | 157726--O | - | 162,554 |
| Total 21.027 | | | - | 169,554 |
| **Total U.S. Department of Treasury** | | | - | 169,554 |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | |
| Passed through Arizona Department of Economic Security | | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | CTR052635 | - | 271,350 |
| **Total U.S. Department of Health and Human Services** | | | - | 271,350 |
| **U.S. DEPARTMENT OF HOMELAND SECURITY** | | | | |
| Passed through Federal Emergency Management Agency | | | | |
| Emergency Food and Shelter National Board Program | 97.024 | Unknown | - | 139,052 |
| **Total U.S. Department of Homeland Security** | | | - | 139,052 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 21,368,528 | $ 44,333,478 |

See Independent Auditors' Report
See Notes to the Schedule of Expenditures of Federal Awards

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

**(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, 2023. 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 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) Assistance listing numbers**

The program titles and assistance listing numbers were obtained from the 2023 Assistance Listings.

**(4) Amounts passed through to subrecipients**

***St. Mary's Food Bank Alliance and SMFB Foundation*** received a COVID-19 Community Development Block Grant under assistance listing 14.228 during the year ended June 30, 2022 to purchase equipment. The equipment was then to be transferred to certain subrecipient agencies as determined by ***St. Mary's Food Bank Alliance and SMFB Foundation.*** Through June 30, 2022, equipment was purchased and properly reflected on the Schedule as federal expenditures. However, the equipment was not transferred to the subrecipient agencies until fiscal 2023. As a result, for the year ended June 30, 2023, amounts passed through to subrecipients for this program exceeds federal expenditures.

**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*** (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023, 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 November 22, 2023.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of 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.

**Mayer Hoffman McCann P.C.**
**An Independent CPA Firm**
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Phoenix, AZ 85016

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***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

November 22, 2023

# 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***

***Opinion on Each Major Federal Program***

We have audited ***St. Mary's Food Bank Alliance and SMFB Foundation's*** (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the 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, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

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***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether to do with fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Report on Internal Control Over Compliance***

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

November 22, 2023

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2023

### Section I – Summary of Auditors' Results

***Consolidated 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:

| Assistance Listing Number | Name of Federal Program or Cluster |
|---|---|
| 10.565, 10.568 and 10.569 | Food Distribution Cluster |
| 10.537 | Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $1,330,004 |
| Auditee qualified as low-risk auditee? | Yes |

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2023

### Section II – Financial Statement Findings

None noted

### Section III – Findings and Questioned Costs Relating to Federal Awards

None noted