

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2012 AND 2011

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Second Harvest Food Bank of Middle Tennessee, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, as of June 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Food Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Middle Tennessee, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
December 19, 2012

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 481,037	\$ 465,098
Accounts receivable	1,688,976	1,643,989
Grants receivable	67,459	68,628
Pledges receivable, net	589,683	306,572
Inventories	4,173,333	6,045,658
Prepaid expenses	37,146	12,848
Investments	1,214,892	2,418,711
Property and equipment, net	<u>7,568,892</u>	<u>7,875,890</u>
TOTAL ASSETS	<u>\$ 15,821,418</u>	<u>\$ 18,837,394</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,188,728	\$ 3,808,316
Deferred grant revenue	234,900	264,506
Line of credit	1,287,900	1,000,000
Notes payable	<u>392,917</u>	<u>457,917</u>
TOTAL LIABILITIES	<u>4,104,445</u>	<u>5,530,739</u>
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,209,947	1,780,730
Property and equipment, less related debt	7,175,975	7,417,973
Board designated	300,000	300,000
Undesignated	<u>2,265,593</u>	<u>3,309,020</u>
Total unrestricted	10,951,515	12,807,723
Temporarily restricted	<u>765,458</u>	<u>498,932</u>
TOTAL NET ASSETS	<u>11,716,973</u>	<u>13,306,655</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,821,418</u>	<u>\$ 18,837,394</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012		
	Unrestricted	Temporarily Restricted	Totals
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 20,020,679	\$ -	\$ 20,020,679
Contributions	4,798,967	1,317,925	6,116,892
Federal and state grant awards	1,417,985	-	1,417,985
Shared maintenance fees	495,216	-	495,216
Culinary arts program	127,213	-	127,213
Special events and activities	506,891	-	506,891
Less: direct benefits to donors	(123,555)	-	(123,555)
Investment income (loss)	(94,279)	-	(94,279)
Agency transportation reimbursement	122,631	-	122,631
Other income	345,647	-	345,647
Reduction of temporarily restricted pledge receivable due to change of intent to conditional pledge	-	-	-
Net assets released in satisfaction of program restrictions	1,051,399	(1,051,399)	-
TOTAL PUBLIC SUPPORT AND REVENUE	28,668,794	266,526	28,935,320
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	29,589,062	-	29,589,062
Sales to local agencies	1,743,461	-	1,743,461
Donated food and services	813,042	-	813,042
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	32,145,565	-	32,145,565
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	(31,069,554)	-	(31,069,554)
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	1,076,011	-	1,076,011
TOTAL SUPPORT AND REVENUE	29,744,805	266,526	30,011,331
EXPENSES			
Program services:			
Emergency Food Box	5,031,773	-	5,031,773
Community Food Partners	21,809,996	-	21,809,996
Children's Programs	1,852,386	-	1,852,386
Culinary Arts Program	373,361	-	373,361
Total Program Services	29,067,516	-	29,067,516
Supporting services:			
Management and general	776,530	-	776,530
Fund raising	1,756,967	-	1,756,967
Total Supporting Services	2,533,497	-	2,533,497
TOTAL EXPENSES	31,601,013	-	31,601,013
CHANGE IN NET ASSETS	(1,856,208)	266,526	(1,589,682)
NET ASSETS - BEGINNING OF YEAR	12,807,723	498,932	13,306,655
NET ASSETS - END OF YEAR	\$ 10,951,515	\$ 765,458	\$ 11,716,973

See accompanying notes to financial statements.

2011		
Unrestricted	Temporarily Restricted	Totals
\$ 15,801,333	\$ -	\$ 15,801,333
3,369,038	1,984,903	5,353,941
2,724,970	-	2,724,970
555,928	-	555,928
166,076	-	166,076
573,959	-	573,959
(60,535)	-	(60,535)
403,791	-	403,791
134,205	-	134,205
109,992	-	109,992
-	(786,184)	(786,184)
<u>2,588,617</u>	<u>(2,588,617)</u>	<u>-</u>
<u>26,367,374</u>	<u>(1,389,898)</u>	<u>24,977,476</u>
26,382,184	-	26,382,184
1,356,295	-	1,356,295
<u>204,461</u>	<u>-</u>	<u>204,461</u>
27,942,940	-	27,942,940
<u>(26,862,042)</u>	<u>-</u>	<u>(26,862,042)</u>
<u>1,080,898</u>	<u>-</u>	<u>1,080,898</u>
<u>27,448,272</u>	<u>(1,389,898)</u>	<u>26,058,374</u>
3,961,261	-	3,961,261
18,190,381	-	18,190,381
2,754,040	-	2,754,040
<u>311,207</u>	<u>-</u>	<u>311,207</u>
<u>25,216,889</u>	<u>-</u>	<u>25,216,889</u>
842,564	-	842,564
<u>1,453,191</u>	<u>-</u>	<u>1,453,191</u>
<u>2,295,755</u>	<u>-</u>	<u>2,295,755</u>
<u>27,512,644</u>	<u>-</u>	<u>27,512,644</u>
(64,372)	(1,389,898)	(1,454,270)
<u>12,872,095</u>	<u>1,888,830</u>	<u>14,760,925</u>
<u>\$ 12,807,723</u>	<u>\$ 498,932</u>	<u>\$ 13,306,655</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,589,682)	\$ (1,454,270)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	566,471	576,866
Amortization of bond issue costs	-	71,129
Noncash contribution of property and equipment	(33,195)	(43,172)
Noncash contribution of investments	(40,706)	-
Realized and unrealized gains (losses) on investments	121,982	(367,988)
Reduction of capital campaign pledge receivable due to change to conditional pledge	-	786,184
(Increase) decrease in:		
Accounts receivable	(44,987)	(108,674)
Grants receivable	1,169	(60,742)
Pledges receivable - operations	(283,111)	346,698
Inventories	1,872,325	(1,653,729)
Prepaid expenses	(24,298)	5,410
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,619,588)	2,332,673
Deferred grant revenue	(29,606)	(480,427)
TOTAL ADJUSTMENTS	<u>486,456</u>	<u>1,404,228</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,103,226)</u>	<u>(50,042)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,166,527	65,779
Purchases of investments	(43,984)	(100,426)
Additions to property and equipment	<u>(226,278)</u>	<u>(386,532)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>896,265</u>	<u>(421,179)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	-	4,142
Net borrowings under line of credit	287,900	1,000,000
Payment of bonds payable	-	(350,000)
Payments on notes payable	<u>(65,000)</u>	<u>(258,768)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>222,900</u>	<u>395,374</u>
NET INCREASE (DECREASE) IN CASH	15,939	(75,847)
CASH - BEGINNING OF YEAR	<u>465,098</u>	<u>540,945</u>
CASH - END OF YEAR	<u><u>\$ 481,037</u></u>	<u><u>\$ 465,098</u></u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u><u>\$ 62,429</u></u>	<u><u>\$ 36,720</u></u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 680,621	\$ 408,967	\$ 1,351,261	\$ 294,681	\$ 131,154	\$ 200,193	\$ 648,090	\$ 3,714,967
Contract labor	325,591	68,214	132,075	59,849	26,867	34,926	37,852	685,374
Payroll taxes and benefits	186,449	104,602	365,133	75,625	35,127	136,630	163,619	1,067,185
 TOTAL SALARIES AND RELATED EXPENSES	 1,192,661	 581,783	 1,848,469	 430,155	 193,148	 371,749	 849,561	 5,467,526
Food supplies and distribution	28,186,417	80,500	1,127,165	27,538	64,779	55,710	12,014	29,554,123
Donated food	836,090	3,142,297	17,166,563	165,912	-	-	-	21,310,862
Internal food purchases and/or reimbursement	(1,827,434)	530,288	265,891	1,030,000	1,255	-	-	-
Product transportation	1,915,751	132,996	631,190	71,183	9,187	5,663	5,621	2,771,591
Office, administration and marketing	62,243	318,293	98,249	18,354	15,837	47,167	450,361	1,010,504
Occupancy	496,447	73,260	255,842	36,403	26,467	77,338	8,720	974,477
Communication expense	36,492	19,293	38,586	19,293	10,204	16,767	221,383	362,018
Travel and conferences	37,250	-	2,522	794	1,683	34,806	11,698	88,753
National network dues	-	-	-	-	-	9,626	-	9,626
Professional fees	24,685	28,013	44,155	16,142	17,193	132,509	25,599	288,296
Other special event costs	-	-	-	-	-	-	272,468	272,468
Insurance	23,481	11,741	52,834	5,870	11,741	5,870	5,870	117,407
 TOTAL EXPENSES BEFORE DEPRECIATION	 30,984,083	 4,918,464	 21,531,466	 1,821,644	 351,494	 757,205	 1,863,295	 62,227,651
Depreciation and amortization	85,471	113,309	278,530	30,742	21,867	19,325	17,227	566,471
 TOTAL EXPENSES	 31,069,554	 5,031,773	 21,809,996	 1,852,386	 373,361	 776,530	 1,880,522	 62,794,122
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(123,555)	(123,555)
Direct costs and expenses of Project Preserve® program	(31,069,554)	-	-	-	-	-	-	(31,069,554)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 5,031,773	 \$ 21,809,996	 \$ 1,852,386	 \$ 373,361	 \$ 776,530	 \$ 1,756,967	 \$ 31,601,013

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	
Salaries	\$ 583,997	\$ 406,898	\$ 1,301,596	\$ 293,059	\$ 117,721	\$ 166,747	\$ 613,225	\$ 3,483,243
Contract labor	195,857	16,582	44,132	6,256	2,869	58,053	15,547	339,296
Payroll taxes and benefits	158,105	110,159	352,380	79,340	31,871	45,143	166,018	943,016
 TOTAL SALARIES AND RELATED EXPENSES	 937,959	 533,639	 1,698,108	 378,655	 152,461	 269,943	 794,790	 4,765,555
 Food supplies and distribution	 25,745,862	 69,909	 2,305,005	 41,716	 63,791	 21,469	 5,227	 28,252,979
Donated food	131,383	2,426,040	11,896,803	1,228,913	-	-	-	15,683,139
Internal food purchases and/or reimbursement	(1,968,930)	475,864	732,693	759,033	1,046	294	-	-
Product transportation	1,460,598	141,231	487,592	75,148	22,911	59,798	15	2,247,293
Credits provided to agencies for purchased product	-	1,500	205,716	93,825	-	-	-	301,041
Capacity-building grants to food partner agencies	-	-	87,211	-	-	-	-	87,211
Office and administration	40,631	90,936	113,863	76,297	3,935	170,363	77,930	573,955
Occupancy	333,924	72,017	262,443	38,106	28,808	33,640	51,779	820,717
Communication expense	29,208	9,888	29,035	9,620	4,877	24,400	246,123	353,151
Travel and conferences	23,893	3,613	18,202	23	1,010	45,797	9,973	102,511
National network dues	-	-	-	-	-	14,538	-	14,538
Professional fees	22,568	8,035	18,284	13,635	6,927	169,877	17,350	256,676
Other special event costs	-	-	-	-	-	-	203,343	203,343
Insurance	20,470	12,282	47,798	7,651	4,174	13,405	19,337	125,117
 TOTAL EXPENSES BEFORE DEPRECIATION	 26,777,566	 3,844,954	 17,902,753	 2,722,622	 289,940	 823,524	 1,425,867	 53,787,226
 Depreciation and amortization	 84,476	 116,307	 287,628	 31,418	 21,267	 19,040	 87,859	 647,995
 TOTAL EXPENSES	 26,862,042	 3,961,261	 18,190,381	 2,754,040	 311,207	 842,564	 1,513,726	 54,435,221
 Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(60,535)	(60,535)
 Direct costs and expenses of Project Preserve® program	 (26,862,042)	 -	 -	 -	 -	 -	 -	 (26,862,042)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 3,961,261	 \$ 18,190,381	 \$ 2,754,040	 \$ 311,207	 \$ 842,564	 \$ 1,453,191	 \$ 27,512,644

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 1 - GENERAL

Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") was founded in 1978. Its mission is to feed hungry people and work to solve hunger issues in the community. The Food Bank is one of over 200 certified members of Feeding America[®] (previously known as America's Second Harvest), the Nation's Food Bank Network.

The Food Bank also operates the Project Preserve[®] program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America[®] affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2012 and 2011, the program contributed over \$1 million each year to the Food Bank's mission to feed hungry people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Food Bank on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Food Bank had no permanently restricted net assets as of June 30, 2012 or 2011.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

The Food Bank also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Agriculture ("USDA"), U.S. Department of Health and Human Services and the United Way of Middle Tennessee. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

The Food Bank reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Project Preserve[®] Revenue Recognition

Project Preserve[®] sales are reported net of allowances for discounts and returns. Revenue is recognized when the product is shipped to the customer. Project Preserve[®] sells products primarily to out-of-area agencies in the Feeding America[®] network, but also sells to partner agencies within the Food Bank's local area. In addition to selling purchased product, the program also operates a cook/chill program and produces custom product assembly products, such as backpacks and emergency food boxes, for national distribution.

Cash

Cash consists principally of checking account balances.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (not applicable at June 30, 2012 and 2011 as all pledges are expected to be received within one year). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Pledges deemed to be uncollectible are charged off against the allowance in the period of determination.

Accounts Receivable

The Food Bank sells purchased food and supplies to other not-for-profit agencies under the Project Preserve[®] program. Accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Food Bank extends trade credit based on evaluation of those agencies' financial condition and, generally, does not require collateral. The Food Bank does not charge interest on past due accounts.

The Food Bank estimates an allowance for doubtful accounts on trade accounts receivable, which may not be fully collectible, based on its knowledge of customers' individual credit circumstances, the Food Bank's historical loss experience and current economic conditions. Accounts determined to be uncollectible are charged off against the allowance in the period of determination. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

Accounts receivable are deemed to be fully collectible by management, and no allowance for doubtful accounts is considered necessary at June 30, 2012 and 2011.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores and Feeding America® is valued at \$1.66 per pound in 2012 and 2011, the estimated average market value at the date of gift, based on a study commissioned by Feeding America®. Donated food also includes donated products utilized in the cook/chill operation. These items were valued at \$0.50 per pound in 2011, which was an estimated average purchased cost for similar products. During 2012, the Food Bank valued these items at \$1.66 per pound consistent with the Feeding America® rate. Purchased inventory is reported at average cost. USDA inventory is valued at the most recent USDA established market value per pound amount, and is recognized as program services expense when distributed.

Investments

Investments consist of money market accounts, certificates of deposit, equity funds, taxable bond funds and corporate bonds. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equity funds, taxable bond funds and corporate bonds are carried at their quoted market value on the last business day of the reporting period. Changes in unrealized gains and losses are recognized currently in the Statement of Activities.

Property and Equipment and Depreciation

Property and equipment are reported at cost at the date of purchase, or at estimated fair value at the date of gift to the Food Bank. The Food Bank's policy is to capitalize purchases with a cost of \$5,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows: five to thirty-nine years for building and improvements, two to fifteen years for equipment, three to five years for furniture and three to five years for transportation equipment.

Designated Unrestricted Net Assets

The Board of Directors has designated \$300,000 of unrestricted net assets to be invested, with the income used to support current operations of the Food Bank. Designations may be reversed at the discretion of the Board of Directors.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Food Bank classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

An 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.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Equity funds, taxable bond funds and corporate bonds are classified within Level 1 where quoted market prices are available in an active market for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted prices of investments with similar characteristics, and the investments are classified within Level 2.

Donated inventory - The value of donated food is based on poundage times a standard rate. The donated food rate is updated annually based on a study commissioned by Feeding America®, which is classified as Level 3. The inputs used in the valuation include twenty-nine product types calculating a weighted average value for the year based on actual donated pounds by type on a national level. During 2011, management utilized a reduced rate of \$0.50 per pound for donated ingredients used in the cook/chill operation, based on an estimate of the purchase price of similar items.

Other than the valuing all donated food at the same rate during 2012, no other changes in the valuation methodologies have been made since the prior year.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Food Bank believes its valuation method is appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Donated Services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Food Bank.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services (Continued)

A substantial number of unpaid volunteers have contributed their time to the Food Bank's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

Program and Supporting Services - Functional Allocation

The following program and supporting services are included in the accompanying financial statements:

Program Services - include activities carried out to fulfill the Food Bank's mission, resulting in services provided to feed the hungry in Middle and West Tennessee. Program services are the major purpose of the organization. The Food Bank distributes food to needy persons in forty-six Middle and West Tennessee counties through the following programs:

Emergency Food Box - provided over 2,900,000 pounds of food during 2012 (2,342,000 pounds in 2011) in emergency staples to families in need through its seventeen satellite centers in Davidson County.

Community Food Partners - provided over 11,150,000 pounds of food during 2012 (9,400,000 pounds in 2011) to over 420 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs. The Middle Tennessee's Table program collects perishable and non-perishable food from more than 189 food donors, such as grocery stores, retailers, wholesalers and bakeries, which is then distributed to more than 420 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. These products include meats, produce, dairy, bread, bakery items and dry products. During 2012, the Food Bank distributed over 4,900,000 pounds of food (equivalent to more than 4 million meals) under this program. (The Food Bank distributed 2,700,000 pounds equivalent to more than 2 million meals in 2011).

Also included in Community Food Partners is the Mobile Pantry program. Mobile Pantry travels to the forty-six county service area and delivers large boxes of perishable and non-perishable food and supplies that are distributed to people in need. During 2012, over 3,100,000 pounds of food (3,000,000 pounds of food in 2011) were distributed through this program.

The Food Bank provided disaster relief support during 2011 in response to the May 2010 flooding that occurred in Middle Tennessee. The costs of providing the disaster relief support was not classified as a separate program service but is reported within both the Emergency Food Box and Community Food Partners program services functional expenses. Disaster relief support operated 77 mobile pantries in all federally declared disaster counties. Over 1.75 million pounds of food was distributed through the disaster relief support during 2011.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation (Continued)

Children's Programs - includes Kids Café® and the Backpack Program. Kids Café® operates a weekly feeding program for children at risk of hunger at several area community centers and provided over 116,000 meals during 2012 (150,000 meals in 2011). The mission of the Backpack Program is to meet the needs of hungry children by providing them with nutritious and easy to prepare food to take home on weekends when other resources are not available. During 2012, the Food Bank distributed nearly 265,000 backpacks to hungry children (205,000 backpacks in 2011).

Culinary Arts Center - operates a state-of-the-art food preparation facility located at the Food Bank. The purpose of the Center is to educate the public on issues related to nutrition and food preparation. The Center is used for food handling safety classes, food product testing and demonstrations, nutrition training and catering for the Food Bank's partner agencies, supporters and clients. The Culinary Arts Center also offers a lunch opportunity every Wednesday (beginning in 2012) and Friday that is open to the public called First Harvest Café. First Harvest Café uses only purchased product and the revenue generated through customer sales goes to support the Food Bank's mission.

Supporting Services

Management and General - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or with fund raising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities

Fund Raising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fund raising materials.

Shipping and Handling

Shipping and handling charges billed to customers through the Project Preserve® program are included as sales to out of area network agencies. Associated costs are included in product transportation expense in the Statement of Functional Expenses, which is reported as a direct cost and expense of the Project Preserve® program in the Statement of Activities.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Food Bank qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). Accordingly, income taxes are not provided.

The Food Bank files a U.S. Federal Form 990 for organizations exempt from income tax. Returns for years prior to fiscal year end 2009 are now closed and no longer open to further examination by the Internal Revenue Service.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Food Bank's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2012 and December 19, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made to prior year amounts in order to be comparative with the current year presentation.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Due in less than one year	\$ 617,433	\$ 325,872
Less: Allowance for uncollectible pledges	<u>(27,750)</u>	<u>(19,300)</u>
	<u>\$ 589,683</u>	<u>\$ 306,572</u>

During 2011, it was determined that the donor's intent on their outstanding capital campaign pledge had changed from an unconditional pledge to a conditional pledge, and no longer met the criteria for recognition in the financial statements. As such, the present value of this pledge balance in the amount of \$786,184 was recorded as a reduction of temporarily restricted net assets at June 30, 2011 in the Statement of Financial Position. Once the donor's condition is met, the original pledge amount will be recorded as contribution revenue.

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Donated food	\$ 1,209,947	\$ 1,780,730
USDA inventory	234,900	240,355
Cook/chill manufactured inventory	16,142	132,409
Purchased inventory	<u>2,712,344</u>	<u>3,892,164</u>
	<u>\$ 4,173,333</u>	<u>\$ 6,045,658</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Liquid money market funds	\$ 128,354	\$ 264,091
Certificates of deposit	119,930	308,131
Equity funds	598,661	1,638,587
Taxable bond funds	367,947	174,482
Corporate bonds	-	33,420
	<u>\$ 1,214,892</u>	<u>\$ 2,418,711</u>

Investment income (loss) consisted of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Realized and unrealized gains (losses) - net	\$ (121,982)	\$ 367,988
Dividends and interest income	<u>27,703</u>	<u>35,803</u>
	<u>\$ (94,279)</u>	<u>\$ 403,791</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 6 - FAIR VALUE MEASUREMENTS

The following table sets forth the Food Bank's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30:

		2012			
		<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:					
Equity funds:					
Large Value	\$	504,277	\$ 504,277	\$ -	\$ -
Mid Value		<u>94,384</u>	<u>94,384</u>	<u>-</u>	<u>-</u>
Total equity funds		598,661	598,661	-	-
Taxable bond funds:					
Intermediate term		<u>367,947</u>	<u>367,947</u>	<u>-</u>	<u>-</u>
Total investments at fair value		966,608	966,608	-	-
Donated inventory		<u>1,209,947</u>	<u>-</u>	<u>-</u>	<u>1,209,947</u>
Total	\$	<u>2,176,555</u>	<u>\$ 966,608</u>	<u>\$ -</u>	<u>\$ 1,209,947</u>
		2011			
		<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:					
Equity funds:					
Growth	\$	743,386	\$ 743,386	\$ -	\$ -
Large Value		491,225	491,225	-	-
Small Cap		<u>403,976</u>	<u>403,976</u>	<u>-</u>	<u>-</u>
Total equity funds		1,638,587	1,638,587	-	-
Taxable bond funds:					
Intermediate term		174,482	174,482	-	-
Corporate bonds:					
Energy		<u>33,420</u>	<u>33,420</u>	<u>-</u>	<u>-</u>
Total investments at fair value		1,846,489	1,846,489	-	-
Donated inventory		<u>1,780,730</u>	<u>-</u>	<u>-</u>	<u>1,780,730</u>
Total	\$	3,627,219	\$ 1,846,489	\$ -	\$ 1,780,730

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>Donated Inventory</u>	
	<u>2012</u>	<u>2011</u>
Beginning of year	\$ 1,780,730	\$ 1,502,962
Donated food received	20,740,079	15,960,907
Donated food distributed	<u>(21,310,862)</u>	<u>(15,683,139)</u>
End of year	<u>\$ 1,209,947</u>	<u>\$ 1,780,730</u>

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	7,036,309	6,897,483
Office and warehouse furniture and equipment	1,561,786	1,523,894
Transportation equipment	1,535,601	1,452,846
Cook/chill equipment	563,532	563,532
Culinary arts center equipment	<u>81,847</u>	<u>81,847</u>
	12,113,661	11,854,188
Less accumulated depreciation	<u>4,544,769</u>	<u>3,978,298</u>
	<u>\$ 7,568,892</u>	<u>\$ 7,875,890</u>

Depreciation expense amounted to \$566,471 for the year ended June 30, 2012 (\$576,868 for the year ended June 30, 2011).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 8 - DEBT

Debt consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
<u>Line of Credit</u>		
\$2,000,000 unsecured line of credit to a financial institution. The line has been extended through January 31, 2013. It is management's intent to extend or renew the line of credit upon maturity. Interest is payable monthly at rate of one-month LIBOR plus 2.5% (2.74% at June 30, 2012). Subject to certain financial covenants for debt service, liquidity and capital expenditures.	<u>\$ 1,287,900</u>	<u>\$ 1,000,000</u>
<u>Note Payable</u>		
\$650,000 note payable to a financial institution to finance renovations to the existing building. The note matures in 59 monthly principal payments of \$5,417 plus accrued interest with remaining principal and accrued interest due at maturity on January 3, 2015. The note bears interest at a variable rate equal to LIBOR plus 3% with a minimum of 3.75% (3.75% at June 30, 2012).	<u>392,917</u>	<u>457,917</u>
Total debt	<u><u>\$ 1,680,817</u></u>	<u><u>\$ 1,457,917</u></u>

Annual principal maturities of debt at June 30, 2012 are as follows:

For the year ending June 30:

2013	\$ 1,352,900
2014	65,000
2015	<u>262,917</u>
	<u><u>\$ 1,680,817</u></u>

Total interest expense incurred by the Food Bank was \$62,429 in 2012 and \$36,720 in 2011. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of specific restrictions within the following programs as of June 30:

	<u>2012</u>	<u>2011</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 184,831	\$ 187,229
Donations for Children's programs	147,190	87,600
Donations for Emergency Food Box program	32,884	29,500
Donations for Community Food Partners	170,553	194,603
Donations to purchase warehouse management system	125,000	-
Donations for other equipment purchases	105,000	-
	<u>\$ 765,458</u>	<u>\$ 498,932</u>

NOTE 10 - IN-KIND DONATIONS

Excluding donated food inventory items, other in-kind donations of goods and services recognized by the Food Bank as contributions revenue for the years ended June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Property and equipment	\$ 33,195	\$ 43,172
Special events:		
Goods and services	104,881	45,638
Food supplies and distribution	61,341	8,510
Occupancy	54,001	47,524
Office and administration:		
Marketing	221,097	22,500
	<u>\$ 474,515</u>	<u>\$ 167,344</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The Food Bank maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of June 30, 2012, the Food Bank's depositor accounts did not exceed FDIC insurance limits.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Food Bank's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 12 - EMPLOYEE BENEFIT PLAN

The Food Bank sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowed under the IRC. In addition, the plan requires the Food Bank to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Food Bank contributions to the plan for the year ended June 30, 2012, amounted to \$183,243 (\$180,748 for 2011).

NOTE 13 - SUBSEQUENT LEASE COMMITMENT

On December 4, 2012, the Food Bank entered into a five-year lease agreement with an approximate annual lease cost of \$100,000 per year, plus a pro-rata share of operating costs, to provide warehouse facilities for its Project Preserve[®] operation.