

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2007 AND 2006

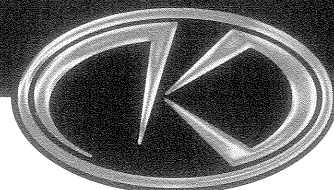
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary (collectively, the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2007 and 2006, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 consolidated financial position of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary as of June 30, 2007 and 2006, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
December 14, 2007

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Operating assets:		
Cash and cash equivalents	\$ 175,048	\$ 375,483
Accounts receivable	860,167	1,269,818
Pledges receivable - Note 2	836,989	396,836
Inventories - Note 3	2,125,100	2,479,934
Prepaid expenses	23,312	17,928
Investments - Note 4	1,904,219	1,236,989
Property and equipment - at cost, less accumulated depreciation - Note 5	7,427,464	7,175,159
Bond issue costs - net of accumulated amortization	89,035	95,004
Capital campaign assets:		
Cash and cash equivalents	274,214	344,072
Pledges receivable - Note 2	<u>866,000</u>	<u>266,825</u>
 TOTAL ASSETS	 <u>\$ 14,581,548</u>	 <u>\$ 13,658,048</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,013,446	\$ 1,096,104
Deferred grant revenue	26,384	51,237
Line of credit obligation - Note 6	-	400,000
Bonds payable - Note 6	<u>1,655,000</u>	<u>1,980,000</u>
 TOTAL LIABILITIES	 <u>2,694,830</u>	 <u>3,527,341</u>
COMMITMENTS AND CONTINGENCIES - Notes 7, 9 and 11		
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,003,846	1,662,180
Property and equipment, less related debt	5,772,464	5,195,159
Other board designations - Note 1	300,000	300,000
Undesignated	<u>3,194,734</u>	<u>1,877,467</u>
Total unrestricted	10,271,044	9,034,806
Temporarily restricted - Note 1	<u>1,615,674</u>	<u>1,095,901</u>
 TOTAL NET ASSETS	 <u>11,886,718</u>	 <u>10,130,707</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 14,581,548</u>	 <u>\$ 13,658,048</u>

See accompanying notes to consolidated financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007		
	Unrestricted	Temporarily Restricted	Totals
REVENUES - PROJECT PRESERVE PROGRAM			
Sales to out of area network agencies, net of discount	\$ 14,379,702	\$ -	\$ 14,379,702
Donated food utilized and distributed	<u>550,531</u>	<u>-</u>	<u>550,531</u>
TOTAL REVENUES - PROJECT PRESERVE PROGRAM	14,930,233	-	14,930,233
DIRECT COSTS AND EXPENSES - PROJECT PRESERVE PROGRAM	<u>14,309,331</u>	<u>-</u>	<u>14,309,331</u>
GROSS PROFIT FROM PROJECT PRESERVE PROGRAM	<u>620,902</u>	<u>-</u>	<u>620,902</u>
SUPPORT AND REVENUE			
Donated food	8,779,275	-	8,779,275
Contributions	2,357,731	2,121,884	4,479,615
Government grants	1,124,912	-	1,124,912
Agency recovery fees	1,055,072	-	1,055,072
Culinary arts program	103,820	-	103,820
Special events and activities	446,965	5,000	451,965
Less: direct benefits to donors	(34,265)	-	(34,265)
Investment income - Note 4	282,376	-	282,376
Other income	22,716	-	22,716
Net assets released in satisfaction of program restrictions	<u>1,607,111</u>	<u>(1,607,111)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>15,745,713</u>	<u>519,773</u>	<u>16,265,486</u>
EXPENSES			
Program services:			
Emergency Food Box	3,632,370	-	3,632,370
Food Recovery	5,911,350	-	5,911,350
Children's Programs (Kids Café in 2006)	824,111	-	824,111
Nashville's Table	2,525,709	-	2,525,709
Culinary Arts Program	<u>206,579</u>	<u>-</u>	<u>206,579</u>
Total Program Services	<u>13,100,119</u>	<u>-</u>	<u>13,100,119</u>
Supporting services:			
Management and general	1,155,519	-	1,155,519
Fund raising	851,716	-	851,716
Capital campaign	<u>23,023</u>	<u>-</u>	<u>23,023</u>
Total Supporting Services	<u>2,030,258</u>	<u>-</u>	<u>2,030,258</u>
TOTAL EXPENSES	<u>15,130,377</u>	<u>-</u>	<u>15,130,377</u>
CHANGE IN NET ASSETS	1,236,238	519,773	1,756,011
NET ASSETS - BEGINNING OF YEAR	9,034,806	1,095,901	10,130,707
NET ASSETS OF NASHVILLE'S TABLE, INC., MERGED EFFECTIVE JULY 1, 2005 - Note 11	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 10,271,044</u>	<u>\$ 1,615,674</u>	<u>\$ 11,886,718</u>

See accompanying notes to consolidated financial statements.

2006		
Unrestricted	Temporarily Restricted	Totals
\$ 11,440,299	\$ -	\$ 11,440,299
541,710	-	541,710
11,982,009	-	11,982,009
11,271,109	-	11,271,109
710,900	-	710,900
8,439,546	-	8,439,546
1,192,292	2,213,895	3,406,187
515,692	-	515,692
926,729	-	926,729
83,611	-	83,611
476,996	47,300	524,296
(56,294)	-	(56,294)
161,466	-	161,466
5,228	-	5,228
2,001,768	(2,001,768)	-
13,747,034	259,427	14,006,461
3,458,784	-	3,458,784
5,354,380	-	5,354,380
727,362	-	727,362
2,484,778	-	2,484,778
145,758	-	145,758
12,171,062	-	12,171,062
1,057,680	-	1,057,680
689,679	-	689,679
67,160	-	67,160
1,814,519	-	1,814,519
13,985,581	-	13,985,581
472,353	259,427	731,780
8,491,957	742,293	9,234,250
70,496	94,181	164,677
<u>\$ 9,034,806</u>	<u>\$ 1,095,901</u>	<u>\$ 10,130,707</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,756,011	\$ 731,780
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	448,419	424,903
Noncash contribution of property and equipment	(70,000)	(17,335)
Unrealized and realized gains on investments	(257,827)	(150,937)
(Gain) loss on disposition of property and equipment	(36)	12,602
Capital grants received for purchase of property and equipment	(566,892)	(32,500)
Contributions for capital campaign, net of allowance and discount	(855,833)	(453,185)
(Increase) decrease in:		
Accounts receivable	377,151	(742,360)
Pledges receivable - operations	(440,153)	78,742
Inventories	354,834	(316,915)
Prepaid expenses	(5,384)	89,482
Increase (decrease) in:		
Accounts payable and accrued expenses	(82,658)	412,135
Deferred grant revenue	(24,853)	12,851
TOTAL ADJUSTMENTS	<u>(1,123,232)</u>	<u>(682,517)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>632,779</u>	<u>49,263</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash transferred in from merger of Nashville's Table, Inc. - Note 11	-	40,232
Proceeds from sales and maturities of investments	46,681	36,917
Purchases of investments	(456,084)	(46,050)
Capital grants received for purchase of property and equipment	599,392	-
Additions to property and equipment	<u>(626,219)</u>	<u>(49,949)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(436,230)</u>	<u>(18,850)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	256,658	724,316
Proceeds from sale of property and equipment	1,500	-
Payments on capital lease obligation	-	(24,305)
Proceeds from drawdowns on line of credit	120,000	700,000
Payments on line of credit	(520,000)	(550,000)
Payment of bonds payable	<u>(325,000)</u>	<u>(722,375)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(466,842)</u>	<u>127,636</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(270,293)</u>	<u>158,049</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>719,555</u>	<u>561,506</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 449,262</u>	<u>\$ 719,555</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 95,805</u>	<u>\$ 95,374</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchases in accounts payable	<u>\$ -</u>	<u>\$ 32,500</u>

See accompanying notes to consolidated financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

	PROGRAM SERVICES						SUPPORTING SERVICES			
	EMERGENCY FOOD BOX	FOOD RECOVERY	CHILDREN'S PROGRAMS	PROJECT PRESERVE	NASHVILLE'S TABLE	CULINARY ARTS	MANAGEMENT AND		CAPITAL CAMPAIGN	TOTALS
							GENERAL	FUND RAISING		
Salaries and contract labor	\$ 252,828	\$ 439,224	\$ 141,330	\$ 335,952	\$ 190,614	\$ 81,084	\$ 513,735	\$ 405,932	\$ -	\$ 2,360,699
Payroll taxes and benefits	42,578	109,205	24,097	97,457	49,587	24,141	135,863	96,756	-	579,684
TOTAL SALARIES AND RELATED EXPENSES	295,406	548,429	165,427	433,409	240,201	105,225	649,598	502,688	-	2,940,383
Occupancy	53,351	91,854	14,937	31,970	25,853	18,290	63,923	12,696	-	312,874
Communication expense	25,136	31,525	84,560	6,966	25,079	818	42,448	76,622	4	293,158
Food supplies and distribution	476,604	601,073	284,693	12,153,415	9,933	52,018	20,385	2,407	-	13,600,528
Donated food	2,633,607	4,329,037	222,629	674,978	2,127,788	-	-	-	-	9,988,039
Internal food purchases and/or reimbursement	120	-	-	-	156	(9,685)	7,729	1,680	-	-
Product transportation	38,574	101,088	12,734	894,433	41,988	-	266	41	-	1,089,124
Office and administration - Note 6	5,435	7,496	5,889	12,804	11,564	4,261	218,368	54,275	-	320,092
Travel and conferences	1,212	2,428	2,336	20,009	1,390	6	52,409	4,890	-	84,680
Professional fees	7,707	7,998	2,529	3,480	3,511	-	62,172	3,304	16,250	106,951
Other special event costs	-	-	-	-	-	-	-	204,655	-	204,655
Insurance	11,204	20,007	5,602	11,203	8,002	2,401	18,649	7,202	800	85,070
TOTAL EXPENSES BEFORE DEPRECIATION	3,548,356	5,740,935	801,336	14,242,667	2,495,465	173,334	1,135,947	870,460	17,054	29,025,554
Depreciation and amortization	84,014	170,415	22,775	66,664	30,244	33,245	19,572	15,521	5,969	448,419
TOTAL EXPENSES	3,632,370	5,911,350	824,111	14,309,331	2,525,709	206,579	1,155,519	885,981	23,023	29,473,973
Less expenses included with revenues on the statement of activities:	-	-	-	-	-	-	-	(34,265)	-	(34,265)
Direct benefits to donors	-	-	-	-	-	-	-	-	-	-
Direct costs and expenses of Project Preserve program	-	-	-	(14,309,331)	-	-	-	-	-	(14,309,331)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	\$ 3,632,370	\$ 5,911,350	\$ 824,111	\$ -	\$ 2,525,709	\$ 206,579	\$ 1,155,519	\$ 851,716	\$ 23,023	\$ 15,130,377

⁽¹⁾Includes \$66,000 donated radio advertising.

See accompanying notes to consolidated financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

	PROGRAM SERVICES						SUPPORTING SERVICES					
	EMERGENCY FOOD BOX	FOOD RECOVERY	KIDS CAFÉ	PROJECT PRESERVE	NASHVILLE'S TABLE	CULINARY ARTS	MANAGEMENT AND		FUND		CAPITAL CAMPAIGN	TOTALS
							GENERAL		RAISING			
Salaries and contract labor	\$ 335,984	\$ 564,545	\$ 160,388	\$ 317,574	\$ 236,868	\$ 64,680	\$ 381,749	\$ 201,132	\$ 21,285	\$ 2,284,205		
Payroll taxes and benefits	74,605	138,681	33,437	61,541	41,796	11,931	112,091	52,815	8,430	535,327		
TOTAL SALARIES AND RELATED EXPENSES	410,589	703,226	193,825	379,115	278,664	76,611	493,840	253,947	29,715	2,819,532		
Occupancy	45,464	79,467	12,006	32,852	50,133	14,407	67,592	19,089	1,138	322,148		
Communication expense	8,236	9,852	79,425 ⁽¹⁾	2,533	5,906	525	38,499	164,912	13	309,901		
Food supplies and distribution	116,873	1,026,643	57,910	9,586,083	13,910	30,702	1,037	639	-	10,833,797		
Donated food	2,361,436	3,745,465	182,097	455,937	2,007,405	-	-	-	-	8,752,340		
Internal food purchases and/or reimbursement	372,051	(523,909)	139,986	-	3,280	(17,176)	22,534	3,234	-	-		
Product transportation	26,680	80,820	6,490	684,267	34,065	105	6,220	40	-	838,687		
Office and administration - Note 6	10,938	34,395	3,013	31,316	12,616	2,982	214,756	65,760	362	376,138		
Travel and conferences	5,626	3,723	211	10,056	1,691	-	26,431	11,090	-	58,828		
Professional fees	699	185	50	4,043	7,126	-	106,829	19,537	28,214	166,683		
Other special event costs	-	-	-	-	-	-	-	177,193	-	177,193		
Insurance	24,490	43,733	12,246	24,491	41,274	5,248	63,859	15,744	1,749	232,834		
TOTAL EXPENSES BEFORE DEPRECIATION	3,383,082	5,203,600	687,259	11,210,693	2,456,070	113,404	1,041,597	731,185	61,191	24,888,081		
Depreciation and amortization	75,702	150,780	40,103	60,416	28,708	32,354	16,083	14,788	5,969	424,903		
TOTAL EXPENSES	3,458,784	5,354,380	727,362	11,271,109	2,484,778	145,758	1,057,680	745,973	67,160	25,312,984		
Less expenses included with revenues on the statement of activities:												
Direct benefits to donors	-	-	-	-	-	-	-	(56,294)	-	(56,294)		
Direct costs and expenses of Project Preserve program	-	-	-	(11,271,109)	-	-	-	-	-	(11,271,109)		
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	\$ 3,458,784	\$ 5,354,380	\$ 727,362	\$ -	\$ 2,484,778	\$ 145,758	\$ 1,057,680	\$ 689,679	\$ 67,160	\$ 13,985,581		

⁽¹⁾Includes \$78,000 donated radio advertising.

See accompanying notes to consolidated financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 209 certified members of America's Second Harvest, the Nation's Food Bank Network.

In June 2005, the Food Bank's Board of Directors approved an agreement to create a wholly-owned subsidiary, into which Nashville's Table, Inc. (a Tennessee not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code) was merged effective July 1, 2005. Pursuant to Section 48-61-101, et seq., of the Tennessee Nonprofit Corporation Act, the Food Bank became the sole owner of Nashville's Table, Inc. Nashville's Table, Inc. retained its separate not-for-profit status, and has been included as part of the Food Bank's consolidated operations from that date forward. (See Note 11.)

Basis of presentation

The consolidated financial statements include the accounts of the Food Bank and Nashville's Table, Inc. (collectively, the "Agency"), and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Material intercompany accounts and transactions have been eliminated in consolidation.

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 Agency had no permanently restricted net assets as of June 30, 2007 or 2006.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Agency also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Agriculture, U.S. Department of Housing and Urban Development 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.

The Agency 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.

Cash and cash equivalents

The Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist principally of checking account balances, as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Operating funds	\$ 175,048	\$ 375,483
Capital campaign funds	<u>274,214</u>	<u>344,072</u>
	<u>\$ 449,262</u>	<u>\$ 719,555</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - 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 significant at June 30, 2007 or 2006). 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.

Accounts receivable

Accounts receivable are deemed to be fully collectible by management, and no allowance for bad debts is considered necessary.

Inventories

Food inventories include donated food, purchased inventory, and undistributed USDA commodities, which are valued at the most recent USDA established market value per pound amount. USDA commodities are recognized as program services expense when distributed. Donated products utilized in the cook/chill operation, which include ingredients, fresh products, and other surplus commodities, are valued at \$0.50 per pound in 2007 and 2006, which is an estimated average cost for such products. All other donated food received from food drives, food companies, and America's Second Harvest that is utilized in other operations is valued at \$1.69 per pound in 2007 (\$1.50 per pound in 2006), the estimated average market value at the date of gift, based on a study commissioned by the national office. USDA inventory is reported at the lower of cost (first-in, first-out method) or fair value, and purchased inventory is reported at average cost.

Investments

Investments consist of money market accounts, a certificate of deposit and equity securities and are carried at the quoted fair market value of the securities on the last business day of the reporting period. The changes in unrealized gains and losses are recognized in the statement of activities for the year.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property 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 Agency. The Agency's policy is to capitalize purchases with a cost of \$1,000 or more and an expected useful life greater than one year. Depreciation is calculated by the straight-line method, down to the estimated salvage value of the assets, over their estimated useful lives. Estimated useful lives are 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 vehicles.

Bond issue costs

Costs associated with the issuance of debt are capitalized and amortized over the life of the bonds. In the event the bonds are paid off in advance, any unamortized issuance costs will be expensed in the year the debt is extinguished.

Temporarily restricted net assets

Temporarily restricted net assets consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 259,530	\$ 262,813
Other contributions or pledges for following period not restricted to specific programs	23,500	111,050
Donation for staff position	31,250	-
Donations for Children's programs	81,207	41,950
Donations for Emergency Food Box program	43,101	26,200
Donations for Nashville's Table	29,244	29,075
Donations for Culinary Arts Center	7,000	5,000
Donations for Capital Campaign	<u>1,140,842</u>	<u>619,813</u>
	<u>\$ 1,615,674</u>	<u>\$ 1,095,901</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

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

Designated unrestricted net assets

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

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 Agency. The Agency has recorded contributions for donated legal services based on the estimated fair value of those services.

A substantial number of unpaid volunteers have contributed their time to the Agency'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.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

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 Agency's mission, resulting in services provided to feed the hungry in Middle Tennessee. Program services are the major purpose of the organization. The Agency distributes food to needy persons in forty-six Middle Tennessee counties through the following programs:

Emergency Food Box - provided over 2,031,000 pounds of food during 2007 (1,880,000 pounds in 2006) in emergency staples to families in need through its fourteen satellite centers in Davidson County.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program services (Continued)

Food Recovery - provided over 4,197,000 pounds of food during 2007 (3,289,000 pounds in 2006) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs.

Children's Programs (formerly Kids Café) - 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; provided over 169,000 meals during 2007 (174,000 meals in 2006). 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 2007, Second Harvest distributed more than 16,800 backpacks to hungry children.

Project Preserve - operates a unique program that distributes product to local agencies and affiliates. The program has operated as a brokerage service to 144 other food banks throughout the country in order to offer a wide variety of products at significantly lower prices. Through the canning of soups and stews, perishable food is preserved that would have otherwise been wasted. In addition, the program has a cook/chill operation. This is a method of food manufacturing that involves heating food, pumping the product into form-fill plastic bags that are heat sealed, then super cooled for approximately 45 minutes prior to freezing the product. It has utilized large amounts of donated ingredients that would have otherwise been wasted. Over 498,700 meals (based on a 12-ounce portion) were distributed during 2007 (689,000 meals in 2006) under this program.

Nashville's Table - collects perishable food from more than 170 food donors, such as restaurants, grocery stores, cafeterias, retailers, wholesalers, bakeries, and caterers, which is then distributed to more than 100 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. During 2007, the Agency distributed over 1,250,700 pounds of food (equivalent to more than one million meals) under this program (1,356,000 pounds in 2006).

Culinary Arts Center - operates a state-of-the-art food preparation facility located at Second Harvest Food Bank of Middle Tennessee. 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 Second Harvest's partner agencies, supporters and clients.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Capital campaign - includes the cost of solicitations in 2007 and 2006, for the capital campaign specifically related to the acquisition and construction of the Agency's new facility. The capital campaign was substantially completed in 2007.

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 nonfinancial data or reasonable subjective methods determined by management.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Due in less than one year	\$ 1,709,989	\$ 669,444
Due in one to five years	<u>-</u>	<u>6,000</u>
	1,709,989	675,444
Less: Allowance for uncollectible pledges	<u>(7,000)</u>	<u>(11,783)</u>
Present value of pledges receivable	<u>\$ 1,702,989</u>	<u>\$ 663,661</u>

Pledges receivable are classified as follows at June 30:

	<u>2007</u>	<u>2006</u>
Operating	\$ 836,989	\$ 396,836
Capital campaign pledges	<u>866,000</u>	<u>266,825</u>
	<u>\$ 1,702,989</u>	<u>\$ 663,661</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Donated ingredients to be utilized in cook/chill operation	\$ 270,685	\$ 395,173
Other donated food inventory	733,161	1,267,007
USDA inventory	26,384	51,237
Cook/chill manufactured inventory	63,823	76,326
Purchased inventory	<u>1,031,047</u>	<u>690,191</u>
	<u>\$ 2,125,100</u>	<u>\$ 2,479,934</u>

NOTE 4 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Liquid money market funds	\$ 435,037	\$ 435,037	\$ 37,091	\$ 37,091
Certificate of deposit	10,000	10,000	-	-
Equity securities:				
Bond Fund of America - 11,657 shares (11,098 shares in 2006)	153,762	154,340	144,052	146,905
Euro Pacific Growth Fund - 3,604 shares (3,350 shares in 2006)	187,283	111,009	147,086	99,342
Growth Mutual of America - 10,812 shares (10,380 shares in 2006)	388,142	241,863	329,050	227,602
Small Cap World Fund - 7,063 shares (6,363 shares in 2006)	321,661	194,072	241,998	166,690
Washington Mutual Investments - 10,980 shares (10,517 shares in 2006)	<u>408,334</u>	<u>338,844</u>	<u>337,712</u>	<u>322,725</u>
	<u>\$ 1,904,219</u>	<u>\$ 1,485,165</u>	<u>\$ 1,236,989</u>	<u>\$ 1,000,355</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 4 - INVESTMENTS (CONTINUED)

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

	<u>2007</u>	<u>2006</u>
Unrealized gains - net	\$ 182,420	\$ 115,241
Dividends and interest income	<u>99,956</u>	<u>46,225</u>
	<u>\$ 282,376</u>	<u>\$ 161,466</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	5,763,903	5,625,067
Office and warehouse furniture and equipment	1,321,552	1,122,359
Transportation equipment	818,745	616,729
Cook/chill equipment	478,693	367,507
Culinary arts center equipment	78,690	78,690
Project Preserve equipment	<u>10,500</u>	<u>10,500</u>
	9,806,669	9,155,438
Less accumulated depreciation	<u>2,379,205</u>	<u>1,980,279</u>
	<u>\$ 7,427,464</u>	<u>\$ 7,175,159</u>

Property and equipment included fully depreciated items with original costs totaling approximately \$806,000 at June 30, 2007 (\$724,000 in 2006.)

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 6 - DEBT

Debt consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
<u>Bonds payable</u>		
\$6,500,000 Industrial Revenue Bonds, Series 2002, issued to finance construction of new facility. Mandatory sinking fund redemption on the bonds amounts to \$325,000 per annum. Bonds mature on June 1, 2022. Interest is payable monthly and is computed on weekly rate periods (ranging from 3.63% - 3.93% in 2007), not to exceed a maximum of 10%. Bonds are secured by a letter of credit issued by a local bank.	<u>\$ 1,655,000</u>	<u>\$ 1,980,000</u>

The Agency has made additional principal payments on the bonds from the collection of capital campaign contributions.

The Agency also has an unsecured \$800,000 operating line of credit with a financial institution. The line is evidenced by a promissory note which bears interest, payable monthly, on the amount borrowed at an interest rate equal to the bank's prime rate. This line of credit matures on February 8, 2008. The outstanding balance under the line at June 30, 2007 was \$0 (\$400,000 at June 30, 2006).

Total interest expense incurred by the Agency was \$95,805 in 2007 and \$95,374 in 2006. Interest expense is included in office and administration.

NOTE 7 - LEASES

The Agency leases warehouse equipment under an operating lease agreement. The lease calls for monthly installments of \$364 through May 2011.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Agency sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowable under the Internal Revenue Code. In addition, the plan requires the Agency to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Agency contributions to the plan for the year ended June 30, 2007, amounted to \$115,956 (\$111,518 for 2006).

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist of cash, investments, and pledges receivable. Pledges receivable consist of individual and corporate contribution pledges. At June 30, 2007, contributions receivable from two sources amounted to approximately \$1,260,000, or 74% of total pledges receivable (\$268,000 and 47% of total pledges receivable in 2006). During 2007, the Agency received two contributions totaling \$1,658,326, or 37% of total contribution revenue (one contribution totaling \$400,000, or 11.5% of total contribution revenue in 2006).

During 2007, sales to one Project Preserve customer amounted to approximately \$1,730,000 or 12% of total sales to out of area network agencies (no customers exceeded 10% of sales in 2006).

The Agency maintains cash and certificates of deposit at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Agency's securities is covered by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors. Coverage is limited to \$500,000, including up to \$100,000 in cash held for the purpose of securities transactions, and not for the purpose of earning interest. The investment company also has excess SIPC coverage provided through Customer Asset Protection Company, which covers the net equity of all cash and securities held by its customers. SIPC and excess SIPC insurance do not cover market risk.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 10 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2007, the Agency purchased goods and services from companies associated with members of the Board of Directors, as follows: approximately \$8,700 for purchased food products (\$8,300 in 2006), \$0 for legal services (\$13,200 in 2006), \$2,700 for other professional services (\$0 in 2006) and \$23,400 for equipment and maintenance (\$16,000 in 2006). In addition, one Board member donated legal services valued at approximately \$8,700 during 2007 (two board members donated approximately \$36,000 in legal services in 2006).

NOTE 11 - MERGER WITH NASHVILLE'S TABLE, INC.

A summary of the assets and liabilities of Nashville's Table, Inc. that were merged with the Food Bank's subsidiary effective July 1, 2005 (see Note 1), follows:

Pledges receivable	\$ 100,094
Other current assets	9,702
Property and equipment, net	36,876
Accrued liabilities	<u>(22,227)</u>
	124,445
Cash	<u>40,232</u>
 Total net assets acquired pursuant to merger	 <u>\$ 164,677</u>
 Net assets	
Unrestricted net assets	\$ 70,496
Temporarily restricted net assets	<u>94,181</u>
	 <u>\$ 164,677</u>

Total net assets acquired pursuant to the merger include contributions receivable in the amount of \$94,181 as of July 1, 2005, that were not previously recognized by Nashville's Table, Inc.

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED)	(ACCRUED)		
					DEFERRED REVENUE	7/1/2006	7/1/06 - 6/30/07	6/30/07
					REVENUE	RECEIPTS	EXPENDITURES	REVENUE
U. S. DEPARTMENT OF AGRICULTURE								
Passed Through Tennessee Department of Human Services:								
	10.559	DA-0600110-00	05/01/06 - 09/30/06	*	\$ -	\$ 32,763	\$ -	
	10.559	DA-0600110-00	05/01/07 - 09/30/07	*	-	11,789	23,913	
Passed Through Tennessee Department of Agriculture:								
	10.568	GA-06-17418-00	10/1/05 - 9/30/06	\$ 54,016	(8,370)	25,777	17,407	
	10.568	GA-07-18375-01	10/1/06 - 9/30/07	\$ 56,902	-	34,387	38,336	
	10.569	GA-06-17418-00 and GA-07-18375-01	10/1/05 - 9/30/06 and 10/1/06 - 9/30/07	*	51,237	346,529	371,382	
TOTAL U.S. DEPT OF AGRICULTURE								
					42,867	451,245	483,801	
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
	14.246 (1)	B-06-SP-TN-0970	11/30/05 - 11/29/10	\$ 396,000	(32,500)	361,969	329,469	
	14.246 (1)	B-06-SP-TN 0964	11/30/05 - 11/29/10	\$ 148,500	-	110,501	110,501	
	14.246 (1)	B-06-SP-TN-0963	11/30/05 - 11/29/10	\$ 148,500	-	135,224	144,264	
TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
					(32,500)	607,694	584,234	
DEPARTMENT OF HOMELAND SECURITY								
	97.024	25-7652-00	10/1/06 - 9/30/07	\$ 56,877	-	56,877	56,877	
Passed Through United Way of Middle Tennessee:								
						\$ 1,115,816	\$ 1,124,912	
TOTAL EXPENDITURES OF FEDERAL AWARDS								
					\$ 10,367	\$ 1,115,816	\$ 1,127,127	