

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2010 AND 2009

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
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JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

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, 2010 and 2009, 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011, on our consideration of Second Harvest Food Bank of Middle Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 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.

Handwritten signature of K. J. H. CPAs PLLC

Nashville, Tennessee
January 18, 2011

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Operating assets:		
Cash and cash equivalents	\$ 540,945	\$ 472,264
Accounts receivable	1,535,315	1,034,836
Grants receivable	7,886	60,882
Pledges receivable, net - Note 2	653,270	524,590
Inventories - Notes 3 and 12	4,391,929	4,252,618
Prepaid expenses	18,258	18,034
Investments - Notes 4 and 12	2,016,076	1,827,762
Property and equipment - at cost, less accumulated depreciation - Note 5	8,023,052	7,256,872
Other assets	71,129	77,097
Capital campaign assets:		
Pledges receivable, net - Note 2	<u>790,326</u>	<u>856,028</u>
 TOTAL ASSETS	 <u>\$ 18,048,186</u>	 <u>\$ 16,380,983</u>
 LIABILITIES		
Accounts payable and accrued expenses	\$ 1,475,643	\$ 1,365,756
Deferred grant revenue	744,933	532,857
Notes payable - Note 6	716,685	-
Bonds payable - Note 6	<u>350,000</u>	<u>675,000</u>
 TOTAL LIABILITIES	 <u>3,287,261</u>	 <u>2,573,613</u>
 COMMITMENTS AND CONTINGENCIES - Notes 7 and 10		
 NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,502,962	1,884,001
Property and equipment, less related debt	6,956,367	6,581,872
Other board designations - Note 1	300,000	300,000
Undesignated	<u>4,112,766</u>	<u>3,662,436</u>
Total unrestricted	12,872,095	12,428,309
Temporarily restricted - Note 9	<u>1,888,830</u>	<u>1,379,061</u>
 TOTAL NET ASSETS	 <u>14,760,925</u>	 <u>13,807,370</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 18,048,186</u>	 <u>\$ 16,380,983</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010		
	Unrestricted	Temporarily Restricted	Totals
REVENUES - PROJECT PRESERVE® PROGRAM			
Agency product sales	\$ -	\$ -	\$ -
Sales to out of area network agencies, net of discount	25,923,260	-	25,923,260
Donated food	136,090	-	136,090
TOTAL REVENUES - PROJECT PRESERVE® PROGRAM	26,059,350	-	26,059,350
DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	25,055,453	-	25,055,453
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	1,003,897	-	1,003,897
SUPPORT AND REVENUE			
Donated food	12,662,231	-	12,662,231
Contributions	2,892,934	3,108,560	6,001,494
Federal and state grant awards	3,383,907	-	3,383,907
Shared maintenance	589,005	-	589,005
Agency product sales	1,287,826	-	1,287,826
Culinary arts program	116,621	-	116,621
Special events and activities	396,172	-	396,172
Less: direct benefits to donors	(73,362)	-	(73,362)
Investment income (loss) - Note 4	188,389	-	188,389
Loss of food inventory as a result of flood - Note 3	(197,000)	-	(197,000)
Other income	55,031	-	55,031
Net assets released in satisfaction of program restrictions	2,598,791	(2,598,791)	-
TOTAL SUPPORT AND REVENUE	23,900,545	509,769	24,410,314
EXPENSES			
Program services:			
Emergency Food Box	3,939,204	-	3,939,204
Community Food Partners (includes Middle Tennessee's Table in 2010)	16,247,698	-	16,247,698
Children's Programs	1,703,993	-	1,703,993
Middle Tennessee's Table	-	-	-
Culinary Arts Program	320,582	-	320,582
Total Program Services	22,211,477	-	22,211,477
Supporting services:			
Management and general	949,948	-	949,948
Fund raising	1,299,231	-	1,299,231
Capital campaign	-	-	-
Total Supporting Services	2,249,179	-	2,249,179
TOTAL EXPENSES	24,460,656	-	24,460,656
CHANGE IN NET ASSETS	443,786	509,769	953,555
NET ASSETS - BEGINNING OF YEAR	12,428,309	1,379,061	13,807,370
NET ASSETS - END OF YEAR	\$ 12,872,095	\$ 1,888,830	\$ 14,760,925

See accompanying notes to financial statements.

2009

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
\$ 1,031,456	\$ -	\$ 1,031,456
23,751,487	-	23,751,487
<u>407,724</u>	<u>-</u>	<u>407,724</u>
25,190,667	-	25,190,667
<u>24,340,974</u>	<u>-</u>	<u>24,340,974</u>
<u>849,693</u>	<u>-</u>	<u>849,693</u>
14,491,987	-	14,491,987
3,003,344	1,626,504	4,629,848
1,424,003	-	1,424,003
427,922	-	427,922
-	-	-
113,377	-	113,377
503,498	46,056	549,554
(174,361)	-	(174,361)
(260,988)	-	(260,988)
-	-	-
41,151	-	41,151
<u>1,640,563</u>	<u>(1,640,563)</u>	<u>-</u>
<u>21,210,496</u>	<u>31,997</u>	<u>21,242,493</u>
7,070,099	-	7,070,099
5,697,725	-	5,697,725
1,153,946	-	1,153,946
4,824,879	-	4,824,879
<u>229,878</u>	<u>-</u>	<u>229,878</u>
<u>18,976,527</u>	<u>-</u>	<u>18,976,527</u>
876,940	-	876,940
1,183,292	-	1,183,292
<u>9,843</u>	<u>-</u>	<u>9,843</u>
<u>2,070,075</u>	<u>-</u>	<u>2,070,075</u>
<u>21,046,602</u>	<u>-</u>	<u>21,046,602</u>
1,013,587	31,997	1,045,584
<u>11,414,722</u>	<u>1,347,064</u>	<u>12,761,786</u>
<u>\$ 12,428,309</u>	<u>\$ 1,379,061</u>	<u>\$ 13,807,370</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 953,555	\$ 1,045,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	534,123	466,442
Noncash contribution of property and equipment	(15,400)	(34,925)
Noncash contribution of investments	(233)	(1,011)
Realized and unrealized (gains) losses on investments	(169,792)	271,564
(Gain) loss on disposition of property and equipment	(92)	2,525
Discount recorded on capital campaign contribution	59,346	-
(Increase) decrease in:		
Accounts receivable	(500,479)	(111,531)
Grants receivable	52,996	(42,882)
Pledges receivable - operations	(128,680)	(56,776)
Inventories	(139,311)	(1,367,458)
Prepaid expenses	(224)	84,288
Increase (decrease) in:		
Accounts payable and accrued expenses	109,887	(11,922)
Deferred grant revenue	212,076	441,708
TOTAL ADJUSTMENTS	14,217	(359,978)
NET CASH PROVIDED BY OPERATING ACTIVITIES	967,772	685,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	99,547	517,497
Purchases of investments	(117,836)	(142,739)
Proceeds from sale of property and equipment	500	1,500
Additions to property and equipment	(1,279,342)	(478,248)
NET CASH USED IN INVESTING ACTIVITIES	(1,297,131)	(101,990)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	6,356	1,992
Borrowings under line of credit	-	500,000
Payments on line of credit	-	(970,000)
Payment of bonds payable	(325,000)	(325,000)
Proceeds from notes payable	843,768	-
Payments on notes payable	(127,083)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	398,041	(793,008)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	68,682	(209,392)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	472,264	681,656
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 540,946	\$ 472,264
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ 32,367	\$ 37,694

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

	PROGRAM SERVICES				SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING
							TOTALS
Salaries and contract labor	\$ 675,182	\$ 389,795	\$ 1,341,703	\$ 286,996	\$ 165,189	\$ 181,299	\$ 3,669,969
Payroll taxes and benefits	160,769	51,241	347,002	45,470	46,747	126,843	920,002
TOTAL SALARIES AND RELATED EXPENSES	835,951	441,036	1,688,705	332,466	211,936	308,142	4,589,971
Food supplies and distribution							
Donated food	25,067,168	89,731	2,005,506	35,927	50,699	29,025	27,281,792
Internal food purchases and/or reimbursement	173,603	2,604,949	9,421,717	843,000	-	-	13,043,269
	(2,719,790)	391,596	1,995,766	324,097	1,552	6,779	-
Product transportation	1,287,527	69,767	372,119	45,604	67	393	1,775,548
Credits provided to agencies for purchased product	-	-	233,601	49,110	-	-	282,711
Capacity-building grants to food partner agencies	-	99,286	-	-	-	-	99,286
Office and administration - Note 6	16,853	4,854	12,607	3,341	3,816	251,936	382,506
Occupancy	260,429	103,549	186,125	30,149	25,512	64,051	679,684
Communication expense	18,535	9,236	32,162	2,752	2,508	33,975	311,226
Travel and conferences	16,774	150	1,973	-	-	49,282	72,201
Professional fees	327	72	1,675	13	-	166,644	172,931
Other special event costs	-	-	-	-	-	244,014	244,014
Insurance	17,566	16,709	41,773	8,355	3,581	21,483	120,209
TOTAL EXPENSES BEFORE DEPRECIATION	24,974,943	3,830,935	15,993,729	1,674,814	299,671	931,710	49,055,348
Depreciation and amortization	80,510	108,269	253,969	29,179	20,911	18,238	534,123
TOTAL EXPENSES	25,055,453	3,939,204	16,247,698	1,703,993	320,582	949,948	49,589,471
Less expenses included with revenues on the statement of activities:							
Direct benefits to donors	-	-	-	-	-	-	(73,362)
Direct costs and expenses of Project Preserve® program	(25,055,453)	-	-	-	-	-	(25,055,453)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 3,939,204	\$ 16,247,698	\$ 1,703,993	\$ 320,582	\$ 949,948	\$ 24,460,656

⁽¹⁾ Includes donated rent of \$94,544.

⁽²⁾ Includes donated special event expenses of \$10,968.

⁽³⁾ Includes Middle Tennessee's Table program in 2010 (reported as separate program in 2009).

⁽⁴⁾ Mobile Pantry program is reported in Community Food Partners in 2010 (reported in Emergency Food Box in 2009).

See accompanying notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

	PROGRAM SERVICES				SUPPORTING SERVICES						
	PROJECT PRESERVE [®]	EMERGENCY FOOD BOX	COMMUNITY		MIDDLE TENNESSEE'S TABLE	CULINARY ARTS	MANAGEMENT AND GENERAL		FUND RAISING	CAPITAL CAMPAIGN	TOTALS
			FOOD PARTNERS	CHILDREN'S PROGRAMS							
Salaries and contract labor	\$ 548,576	\$ 367,459	\$ 635,538	\$ 255,617	\$ 314,933	\$ 105,220	\$ 221,176	\$ 546,484	\$ -	\$ 2,995,003	
Payroll taxes and benefits	176,827	63,773	165,978	49,322	80,669	33,921	109,369	151,598	-	831,457	
TOTAL SALARIES AND RELATED EXPENSES	725,403	431,232	801,516	304,939	395,602	139,141	330,545	698,082	-	3,826,460	
Occupancy	116,204 ⁽¹⁾	73,050	122,223	21,803	28,418	20,882	96,464	10,330	-	489,374	
Communication expense	7,320	6,845	15,221	3,518	3,201	1,082	24,511	197,217	-	258,915	
Food supplies and distribution	22,243,774	150,996	849,860	33,896	5,105	45,224	10,091	2,620	-	23,341,566	
Donated food	470,404	5,784,686	3,476,618	413,385	4,199,450	-	-	-	-	14,344,543	
Internal food purchases and/or reimbursement	(781,480)	470,586	-	307,440	-	461	2,993	-	-	-	
Product transportation	1,430,350	43,719	203,344	28,858	138,443	7	786	79	-	1,845,586	
Office and administration - Note 6	21,499	4,720	21,055	4,771	1,161	1,429	227,190	71,433	239	353,497	
Travel and conferences	21,672	718	8,147	1,469	-	-	38,737	3,309	-	74,052	
Professional fees	1,416	400	1,849	255	4	-	121,445	14,625	3,469	143,463	
Other special event costs	-	-	-	-	-	-	-	330,090 ⁽²⁾	-	330,090	
Insurance	12,312	12,989	21,734	6,156	8,711	2,638	15,496	7,747	166	87,949	
TOTAL EXPENSES BEFORE DEPRECIATION	24,268,874	6,979,941	5,521,567	1,126,490	4,780,095	210,864	868,258	1,335,532	3,874	45,095,495	
Depreciation and amortization	72,100	90,158	176,158	27,456	44,784	19,014	8,682	22,121	5,969	466,442	
TOTAL EXPENSES	24,340,974	7,070,099	5,697,725	1,153,946	4,824,879	229,878	876,940	1,357,653	9,843	45,561,937	
Less expenses included with revenues on the statement of activities:											
Direct benefits to donors	-	-	-	-	-	-	-	(174,361)	-	(174,361)	
Direct costs and expenses of Project Preserve [®] program	(24,340,974)	-	-	-	-	-	-	-	-	(24,340,974)	
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 7,070,099	\$ 5,697,725	\$ 1,153,946	\$ 4,824,879	\$ 229,878	\$ 876,940	\$ 1,183,292	\$ 9,843	\$ 21,046,602	

(2) Includes donated special event expenses of \$81,051.

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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 206 certified members of Feeding America® (previously known as America's Second Harvest), the Nation's Food Bank Network.

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, 2010 or 2009.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

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 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.

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.

Cash and Cash Equivalents

The Food Bank 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.

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 (1.79% at June 30, 2010; not significant at June 30, 2009). 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give (Continued)

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 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.

Accounts receivable are deemed to be fully collectible by management, and no allowance for bad debts is considered necessary at June 30, 2010 and 2009.

Inventories

Food inventories include donated food, purchased inventory, and undistributed USDA commodities. 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 2010 and 2009, which is an estimated average cost for such products. All other donated food received from food drives, food companies, and Feeding America® that is utilized in other operations is valued at \$1.60 per pound in 2010 (\$1.58 per pound in 2009), the estimated average market value at the date of gift, based on a study commissioned by Feeding America®. 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 and 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

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 Food Bank. The Food Bank's policy is to capitalize purchases with a cost of \$1,000 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.

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Food Bank has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 should 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 - Money market funds, certificates of deposit, equity funds, taxable bond funds and corporate bonds are classified within Level 1 where quoted market prices are available in an active market. Inputs include investments that have quoted market prices in active markets 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 determined for the weighted average value per pound by product type. The rate is updated annually based on a study commissioned by Feeding America®.

No 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. The Food Bank 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 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Project Preserve[®] - operates a unique program that distributes purchased product to local agencies and other Feeding America affiliates. In addition, the program has a cook/chill operation, which 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.

Emergency Food Box - provided over 2,560,000 pounds of food during 2010 (2,405,000 pounds in 2009) in emergency staples to families in need through its seventeen satellite centers in Davidson County.

Community Food Partners/Middle Tennessee's Table - provided over 9,940,000 pounds of food during 2010 (6,585,000 pounds in 2009) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs. Middle Tennessee's Table (previously Nashville's Table) collects perishable food from more than 189 food donors, such as grocery stores, retailers, wholesalers and bakeries, which is then distributed to more than 300 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. In March 2008, the Food Bank began the Grocery Rescue program, which picks up excess perishable products from participating grocery stores and distributes to agencies in the service area. These products include meats, produce, dairy, bread, bakery items and dry products. During 2010, the Food Bank distributed over 2,073,000 pounds of food (equivalent to more than 2.5 million meals) under this program (304,000 pounds equivalent to more than 380,000 meals in 2009).

Also included in Community Food Partners is the Mobile Pantry program in 2010. The Mobile Pantry program was included the Emergency Food Box program services in 2009. Mobile Pantry travels to the forty-six county service area and delivers large boxes of food and supplies that are distributed to people in need. During 2010, over 3,098,000 pounds of food (1,718,000 pounds of food in 2009) were distributed through this program.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - 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 176,000 meals during 2010 (158,000 meals in 2009). 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 2010, the Food Bank distributed more than 137,000 backpacks to hungry children (71,100 backpacks in 2009).

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.

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 for the capital campaign specifically related to the acquisition and construction of the Food Bank's 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 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, 2010 AND 2009

NOTE 1 - 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.

Effective July 1, 2009, the Food Bank adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Food Bank's financial position and results of operations.

As of June 30, 2010, the Food Bank did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the year then ended.

The Food Bank files a U.S. Federal Form 990 for organizations exempt from income tax. Returns for years prior to fiscal year end 2007 are closed.

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, 2010 and January 18, 2011, 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, 2010 AND 2009

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ 659,942	\$ 1,387,618
Due in one to five years	850,000	-
	<u>1,509,942</u>	<u>1,387,618</u>
Less: Present value discount	(63,816)	-
Less: Allowance for uncollectible pledges	<u>(2,530)</u>	<u>(7,000)</u>
Present value of pledges receivable	<u>\$ 1,443,596</u>	<u>\$ 1,380,618</u>

Pledges receivable are classified as follows at June 30:

	<u>2010</u>	<u>2009</u>
Operating	\$ 653,270	\$ 524,590
Capital campaign pledges	<u>790,326</u>	<u>856,028</u>
	<u>\$ 1,443,596</u>	<u>\$ 1,380,618</u>

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Donated ingredients to be utilized in cook/chill operation	\$ 93,234	\$ 128,302
Other donated food inventory	1,409,728	1,755,699
USDA inventory	629,580	527,128
Cook/chill manufactured inventory	121,558	82,871
Purchased inventory	<u>2,137,829</u>	<u>1,758,618</u>
	<u>\$ 4,391,929</u>	<u>\$ 4,252,618</u>

During May 2010, flooding occurred in Nashville that caused the Food Bank to temporarily lose power. As a result, all perishable food in the Food Bank's cooler had to be discarded. The total loss relating to the discarded food is estimated to be \$197,000, which is reported in the Statement of Activities under public support and revenue.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 4 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Liquid money market funds	\$ 256,538	\$ 153,547
Certificates of deposit	295,146	289,507
Equity funds	1,263,353	1,103,239
Taxable bond funds	166,543	147,426
Corporate bonds	34,496	134,043
	<u>\$ 2,016,076</u>	<u>\$ 1,827,762</u>

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

	<u>2010</u>	<u>2009</u>
Realized and unrealized gains (losses) - net	\$ 169,794	\$ (271,564)
Dividends and interest income	18,595	10,576
Total investment income (loss), net	<u>\$ 188,389</u>	<u>\$ (260,988)</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	6,628,681	5,739,334
Office and warehouse furniture and equipment	1,484,007	1,490,392
Transportation equipment	1,331,829	1,119,778
Cook/chill equipment	563,531	507,092
Culinary arts center equipment	81,848	81,848
	<u>11,424,482</u>	<u>10,273,030</u>
Less accumulated depreciation	<u>3,401,430</u>	<u>3,016,158</u>
	<u>\$ 8,023,052</u>	<u>\$ 7,256,872</u>

Property and equipment includes fully depreciated items with original costs totaling approximately \$1,268,000 at June 30, 2010 (\$1,241,000 at June 30, 2009).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 6 - DEBT

Debt consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
<u>Notes 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, 2010).	\$ 622,917	\$ -
Two notes payable to purchase two delivery trucks for \$96,803 and \$96,964, respectively. The notes bear interest at a rate of 0% the first year of the agreement, 2.0% the second year, 3.0% the third year and 4.0% the final year (0% at June 30, 2010). The notes require annual principal payments of \$24,201 and \$24,241, respectively, with all remaining principal and accrued interest due at maturity. These notes were repaid in July 2010.	<u>93,768</u>	<u>-</u>
Total notes payable	<u>\$ 716,685</u>	<u>\$ -</u>

Bond Payable

\$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 0.78% - 3.25% in 2010; 1.00% - 8.03% in 2009), not to exceed a maximum of 10%. Bonds are secured by a letter of credit issued by a local bank.	<u>\$ 350,000</u>	<u>\$ 675,000</u>
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The Food Bank has made additional principal payments on the bonds at various times from the collection of capital campaign contributions.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 6 - DEBT (CONTINUED)

Annual principal maturities of debt at June 30, 2010 are as follows:

<u>For the year ending June 30:</u>	<u>Notes Payable</u>	<u>Bonds Payable</u>	<u>Total</u>
2011	\$ 113,442	\$ 325,000	\$ 438,442
2012	110,326	25,000	135,326
2013	65,000	-	65,000
2014	65,000	-	65,000
2015	362,917	-	362,917
	<u>\$ 716,685</u>	<u>\$ 350,000</u>	<u>\$ 1,066,685</u>

Total interest expense incurred by the Food Bank was \$32,367 in 2010 and \$37,694 in 2009. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

The Food Bank 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 (3.25% at June 30, 2010). This line of credit matures on February 7, 2011. There was no balance outstanding under the line at June 30, 2010 or 2009.

NOTE 7 - LEASES

The Food Bank leases warehouse equipment under a noncancelable operating lease agreement. The lease calls for monthly installments of \$364 through May 2011.

NOTE 8 - 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 allowable 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, 2010, amounted to \$151,012 (\$146,629 for 2009).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 320,975	\$ 337,785
Other contributions or pledges for following period not restricted to specific programs	-	49,865
Donations for Children's programs	36,000	27,029
Donations for Emergency Food Box program	36,627	81,204
Donations for Middle Tennessee's Table	201,354	27,150
Donations for Capital Campaign	790,326	856,028
Disaster Relief	503,548	-
	<u>\$ 1,888,830</u>	<u>\$ 1,379,061</u>

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Food Bank to concentrations of credit risk consist of cash, investments, and pledges receivable. Pledges receivable consist of individual and corporate contribution pledges. At June 30, 2010, contributions receivable from two sources amounted to approximately \$1,050,000, or 70% of total pledges receivable (\$850,000 from one source, or 62% of total pledges receivable in 2009).

The Company 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, 2010, the Company's depositor accounts exceeded FDIC insurance limits by approximately \$1,000,000.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 11 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2010, the Food Bank paid \$38,156 for rental space (\$29,354 in 2009) and \$1,949 for professional services (\$7,667 in 2009) from companies that employ a Board member. Additionally, during the year ended June 30, 2009, the Food Bank purchased equipment and maintenance in the amount of \$17,577 from a company that employs a Board member.

One Board member donated legal services valued at approximately \$250 during 2010 (\$16,000 from two Board members in 2009). Another Board member donated beverages valued at approximately \$1,200 for fundraising activities (none in 2009). Additionally, the space used by the Project Preserve[®] program is donated by a company that employs a board member.

NOTE 12 - FAIR VALUE MEASUREMENTS

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

	2010			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Liquid money market funds	\$ 256,538	\$ 256,538	\$ -	\$ -
Certificates of deposit	295,146	-	295,146	-
Equity funds:				
Growth	580,082	580,082	-	-
Large Value	354,709	354,709	-	-
Small Cap	328,562	328,562	-	-
Total equity funds	1,263,353	1,263,353	-	-
Taxable bond funds:				
Intermediate term	166,543	166,543	-	-
Corporate bonds:				
Energy	34,496	34,496	-	-
Total investments	2,016,076	1,720,930	295,146	-
Donated inventory	1,502,962	-	-	1,502,962
Total	<u>\$ 3,519,038</u>	<u>\$ 1,720,930</u>	<u>\$ 295,146</u>	<u>\$ 1,502,962</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 12 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2009			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Liquid money market funds	\$ 153,547	\$ 153,547	\$ -	\$ -
Certificates of deposit	289,507	-	289,507	-
Equity funds	1,103,239	1,103,239	-	-
Taxable bond funds	147,426	147,426	-	-
Corporate bonds	<u>134,043</u>	<u>134,043</u>	<u>-</u>	<u>-</u>
Total investments	1,827,762	1,538,255	289,507	-
Donated inventory	<u>1,884,001</u>	<u>-</u>	<u>-</u>	<u>1,884,001</u>
Total	<u>\$ 3,711,763</u>	<u>\$ 1,538,255</u>	<u>\$ 289,507</u>	<u>\$ 1,884,001</u>

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 year ended June 30, 2010:

	<u>Donated Inventory</u>
Beginning of year	\$ 1,884,001
Donated food received	12,662,230
Donated food distributed	<u>(13,043,269)</u>
End of year	<u>\$ 1,502,962</u>

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

EXPENDITURES OF FEDERAL AWARDS	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2009	7/1/09 - 6/30/10		(ACCRUED) DEFERRED REVENUE 6/30/10
						RECEIPTS	EXPENDITURES	
U. S. DEPARTMENT OF AGRICULTURE								
Passed Through Tennessee Department of Human Services								
Summer Food Service Program (SFSP)	10.559	30082	05/01/09 - 09/30/09	*	\$ (6,495)	\$ 20,276	\$ 13,781	\$ -
Summer Food Service Program (SFSP)	10.559		05/01/10 - 09/30/10	*	-	10,094	10,094	-
Passed Through Tennessee Department of Agriculture								
Emergency Food Assistance Program - Administrative Costs	10.568	(1) GR-09-26395-00	10/01/08 - 09/30/09	\$ 56,902	(18,092)	50,455	32,363	-
ARRA - Emergency Food Assistance Program - Administrative Costs	10.568	(1) GR-09-26395-00	10/01/08 - 09/30/09	\$ 205,122	(36,295)	205,122	168,827	-
Emergency Food Assistance Program - Commodities	10.569	(1) GR-08-22718-00 and GR-09-26395-00	10/1/07 - 9/30/08 and 10/1/08 - 9/30/09	*	527,128	554,165	1,081,293	-
Emergency Food Assistance Program - Administrative Costs	10.568	(1) GR-32501-00	10/01/09 - 09/30/10	\$ 151,336	-	62,025	69,911	(7,886)
Emergency Food Assistance Program - Commodities	10.569	(1) GR-32501-00	10/01/09 - 09/30/10	*	-	1,164,785	535,205	629,580
TOTAL U. S. DEPT OF AGRICULTURE					466,246	2,066,922	1,911,474	621,694
DEPARTMENT OF HOMELAND SECURITY								
Passed Through United Way of Middle Tennessee:								
Emergency Management Food and Shelter Program	97.024	27-7652-00	1/1/09 - 10/31/09	\$ 55,000	-	27,500	27,500	-
Emergency Management Food and Shelter Program	97.024	27-7818-00	10/1/08 - 10/31/09	\$ 51,332	-	51,296	51,296	-
ARRA - Emergency Management Food and Shelter Program	97.114	AR-7652-00	4/1/09 - 10/31/09	\$ 11,458	5,729	-	5,729	-
ARRA - Emergency Management Food and Shelter Program	97.114	AR-7818-00	04/01/09 - 10/31/09	\$ 51,261	-	51,261	51,261	-
Emergency Management Food and Shelter Program	97.024	28-7652-00	10/01/09 - 10/31/10	\$ 55,000	-	55,000	10,000	45,000
TOTAL DEPARTMENT OF HOMELAND SECURITY					5,729	185,057	145,786	45,000

(Continued)

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2009	7/1/09 - 6/30/10		(ACCRUED) DEFERRED REVENUE 6/30/10
						RECEIPTS	EXPENDITURES	
DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed Through Tennessee Department of Human Services								
	93.667	(1)	10/01/09-06/30/10	\$ 900,000	-	900,000	900,000	-
Social Services Block Grant								
Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee								
	93.709	N/A	N/A	\$ 300,000	-	300,000	289,647	10,353
ARRA - Early Head Start								
Passed Through South West Human Resource Agency								
	93.710	N/A	N/A	\$ 77,000	-	77,000	77,000	-
ARRA - Community Services Block Grant								
Passed Through South Central Human Resource Agency								
	93.710	N/A	N/A	\$ 120,000	-	120,000	60,000	60,000
ARRA - Community Services Block Grant								
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES								
						1,397,000	1,326,647	70,353
TOTAL EXPENDITURES OF FEDERAL AWARDS								
						\$ 3,648,979	\$ 3,383,907	\$ 737,047

* Not specified.

(1) Denotes a major program

Total Expenditures by CFDA Number:

10.559	\$ 23,875
10.568 & 10.569	1,887,599
97.024 & 97.114	145,786
93.667	900,000
93.709	289,647
93.710	137,000
	<u>\$ 3,383,907</u>

BASIS OF PRESENTATION

This Schedule of Expenditures of Federal Awards includes the grant activity of Second Harvest Food Bank of Middle Tennessee, Inc., and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. This schedule is presented in accordance with the requirements of OMB Circular A-133, *Analysis of States, Local Governments, and Non-Profit Organizations*.

OTHER REPORTS

INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Food Bank's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2010-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Middle Tennessee, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Second Harvest Food Bank of Middle Tennessee, Inc. in a separate letter dated January 18, 2011.

Second Harvest Food Bank of Middle Tennessee, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Food Bank's response, and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the finance committee, Board of Directors, management, federal awarding agencies, the State of Tennessee and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Y. H. CPAs PLLC". The signature is stylized, with the "Y" and "H" being particularly prominent and connected.

Nashville, Tennessee
January 18, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Food Bank's major federal programs for the year ended June 30, 2010. The Food Bank's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of the Food Bank's major federal programs is the responsibility of its management. Our responsibility is to express an opinion on the Food Bank's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Second Harvest Food Bank of Middle Tennessee, Inc.'s compliance with those requirements.

In our opinion, Second Harvest Food Bank of Middle Tennessee, Inc. 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, 2010.

Internal Control Over Compliance

The management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Food Bank's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the finance committee, Board of Directors, management, federal awarding agencies, the State of Tennessee, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Gregory CPAs PLLC". The signature is stylized and cursive.

Nashville, Tennessee
January 18, 2011

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.568 and 10.569	Emergency Food Assistance Program - Administrative Costs and Commodities (including ARRA funds)
93.667	Social Services Block Grant

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ No

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

Section II - Financial Statement Findings

PRIOR YEAR

None were reported in the prior year.

CURRENT YEAR

2010-1 - Internal control over functional expense reporting by program services

Condition/Criteria:

Management is responsible for establishing and maintaining effective internal control over financial reporting, including proper reporting of expenses by functional classification between program services.

As part of recording food product distributed by program, the Food Bank utilizes its Project Preserve program as the centralized purchasing/warehouse to sell to the other programs. Internal sales and purchases allow the Food Bank to report the food distributed by the applicable program.

Context:

During the audit of functional expense classifications, it was noted that internal sales and internal purchases among the programs included misclassifications such that these internal transactions did not net to zero.

Effect:

Food purchase expenses were not reported in the correct program services category for functional expense reporting. Although the total amount of food distributions/expenditures for the Food Bank was basically correct, the allocation of these costs among the respective program services was misclassified.

Cause:

During the current year, the Food Bank revised some of its programs such that certain activities that were reported in one program in the prior year were reported in another program in the current year. Additionally, the Food Bank also received several government grants for food purchases to benefit its various programs. The effects of the program reporting changes, the reporting of the purchases funded by the government grants, some internal software limitations and misunderstanding of the inventory cost of sales reporting resulted in the misclassifications among the program services.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

Section II - Financial Statement Findings (continued)

2010-1 - Internal control over functional expense reporting by program services (continued)

Recommendation:

We recommend that accounting, operations and the computer system teams work closely together to ensure that information flowing through the inventory system for purchases among the Food Bank's various programs is being properly matched and recorded in the correct program category and functional expense reporting by program is accurate. In addition, we recommend that transactions that do not relate to internal sales and purchases be recorded in the appropriate accounts.

Management's Response:

We will be working closely with accounting, operations and the computer systems teams to ensure that information flowing through the inventory system for purchases between the Food Bank's various programs is being properly matched and recorded in the correct program category and functional expense reporting by program accurately. We will also work to report internal sales and purchases in the appropriate accounts.

Section III - Federal Award Findings

PRIOR YEAR

None were reported in the prior year.

CURRENT YEAR

None reported in the current year.