

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2014 AND 2013

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
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JUNE 30, 2014 AND 2013

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## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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 from material misstatement.

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

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

## OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Food Bank taken as a whole. The schedule of expenditures of federal awards on page 23, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

## OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the Food Bank'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* in considering the Food Bank's internal control over financial reporting and compliance.

*Kraj+CPAs PLLC*

Nashville, Tennessee  
November 6, 2014

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 778,438	\$ 48,086
Accounts receivable, net	1,132,035	1,373,236
Grants receivable	90,520	206,288
Pledges receivable, net	286,204	504,771
Inventories	4,162,303	4,169,113
Prepaid expenses	149,875	132,808
Investments	1,491,307	1,359,008
Property and equipment, net	<u>7,077,727</u>	<u>7,211,292</u>
 TOTAL ASSETS	 <u>\$ 15,168,409</u>	 <u>\$ 15,004,602</u>
 LIABILITIES		
Accounts payable and accrued expenses	\$ 1,979,400	\$ 1,575,634
Deferred grant revenue	382,545	775,141
Line of credit	564,400	705,705
Note payable	<u>62,916</u>	<u>127,917</u>
 TOTAL LIABILITIES	 <u>2,989,261</u>	 <u>3,184,397</u>
 NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,813,424	1,288,345
Property and equipment, less related debt	7,014,811	7,083,375
Board designated	300,000	300,000
Undesignated	<u>1,668,966</u>	<u>2,095,038</u>
Total unrestricted	10,797,201	10,766,758
Temporarily restricted	<u>1,381,947</u>	<u>1,053,447</u>
 TOTAL NET ASSETS	 <u>12,179,148</u>	 <u>11,820,205</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 15,168,409</u>	 <u>\$ 15,004,602</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014		
	Unrestricted	Temporarily Restricted	Totals
<b>PUBLIC SUPPORT AND REVENUE</b>			
Donated food	\$ 36,078,844	\$ -	\$ 36,078,844
Contributions	5,951,866	2,008,573	7,960,439
Government grants	2,526,028	-	2,526,028
Shared maintenance fees	571,627	-	571,627
Culinary arts center	221,758	-	221,758
Special events and activities	550,660	-	550,660
Less: direct benefits to donors	(174,877)	-	(174,877)
Investment income	193,758	-	193,758
Agency transportation reimbursement	202,649	-	202,649
Other income	31,892	-	31,892
Net assets released in satisfaction of program restrictions	1,680,073	(1,680,073)	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>47,834,278</b>	<b>328,500</b>	<b>48,162,778</b>
<b>REVENUE - PROJECT PRESERVE® PROGRAM</b>			
Sales to out of area network agencies, net of discount	27,924,997	-	27,924,997
Sales to local agencies	1,859,145	-	1,859,145
Donated food and services	437,810	-	437,810
<b>TOTAL REVENUE - PROJECT PRESERVE® PROGRAM</b>	<b>30,221,952</b>	<b>-</b>	<b>30,221,952</b>
<b>LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM</b>	<b>(28,581,205)</b>	<b>-</b>	<b>(28,581,205)</b>
<b>GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM</b>	<b>1,640,747</b>	<b>-</b>	<b>1,640,747</b>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>49,475,025</b>	<b>328,500</b>	<b>49,803,525</b>
<b>EXPENSES</b>			
Program services:			
Emergency Food Box	5,331,748	-	5,331,748
Community Food Partners	38,418,178	-	38,418,178
Children's Programs	1,879,873	-	1,879,873
Culinary Arts Center	487,469	-	487,469
<b>Total Program Services</b>	<b>46,117,268</b>	<b>-</b>	<b>46,117,268</b>
Supporting services:			
Management and general	893,446	-	893,446
Fund raising	2,433,868	-	2,433,868
<b>Total Supporting Services</b>	<b>3,327,314</b>	<b>-</b>	<b>3,327,314</b>
<b>TOTAL EXPENSES</b>	<b>49,444,582</b>	<b>-</b>	<b>49,444,582</b>
<b>CHANGE IN NET ASSETS</b>	<b>30,443</b>	<b>328,500</b>	<b>358,943</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>10,766,758</b>	<b>1,053,447</b>	<b>11,820,205</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 10,797,201</b>	<b>\$ 1,381,947</b>	<b>\$ 12,179,148</b>

See accompanying notes to financial statements.

2013		
Unrestricted	Temporarily Restricted	Totals
\$ 27,847,571	\$ -	\$ 27,847,571
5,401,849	1,787,227	7,189,076
2,630,502	-	2,630,502
521,098	-	521,098
133,294	-	133,294
535,772	-	535,772
(160,064)	-	(160,064)
126,153	-	126,153
167,661	-	167,661
65,327	-	65,327
1,499,238	(1,499,238)	-
38,768,401	287,989	39,056,390
28,652,819	-	28,652,819
1,862,110	-	1,862,110
1,135,319	-	1,135,319
31,650,248	-	31,650,248
(30,136,128)	-	(30,136,128)
1,514,120	-	1,514,120
40,282,521	287,989	40,570,510
4,782,623	-	4,782,623
30,554,826	-	30,554,826
1,890,978	-	1,890,978
356,606	-	356,606
37,585,033	-	37,585,033
838,933	-	838,933
1,951,742	-	1,951,742
2,790,675	-	2,790,675
40,375,708	-	40,375,708
(93,187)	287,989	194,802
10,859,945	765,458	11,625,403
<u>\$ 10,766,758</u>	<u>\$ 1,053,447</u>	<u>\$ 11,820,205</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 358,943	\$ 194,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	515,376	536,634
Gain on sale of equipment	(17,132)	-
Noncash contribution of property and equipment	(103,539)	-
Noncash contribution of investments	(53,998)	(35,799)
Realized and unrealized gains on investments	(176,390)	(107,742)
(Increase) decrease in:		
Accounts receivable	241,201	283,214
Grants receivable	115,768	(138,829)
Pledges receivable	218,567	36,185
Inventories	6,810	4,220
Prepaid expenses	(17,067)	(95,662)
Increase (decrease) in:		
Accounts payable and accrued expenses	403,766	(613,094)
Deferred grant revenue	<u>(392,596)</u>	<u>540,241</u>
TOTAL ADJUSTMENTS	<u>740,766</u>	<u>409,368</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,099,709</u>	<u>604,170</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	148,905	35,799
Purchases of investments	(50,816)	(36,374)
Proceeds from sale of equipment	32,500	-
Additions to property and equipment	<u>(293,640)</u>	<u>(179,034)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(163,051)</u>	<u>(179,609)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on line of credit	(141,305)	(582,195)
Payments on note payable	<u>(65,001)</u>	<u>(265,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(206,306)</u>	<u>(847,195)</u>
NET INCREASE (DECREASE) IN CASH	730,352	(422,634)
CASH - BEGINNING OF YEAR	<u>48,086</u>	<u>470,720</u>
CASH - END OF YEAR	<u>\$ 778,438</u>	<u>\$ 48,086</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 20,000</u>	<u>\$ 22,465</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS CENTER	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 746,667	\$ 464,114	\$ 1,324,488	\$ 359,715	\$ 211,943	\$ 368,974	\$ 906,026	\$ 4,381,927
Contract labor	338,149	63,733	203,602	53,896	13,761	22,645	9,008	704,794
Payroll taxes and benefits	209,036	153,394	463,623	108,370	59,406	77,014	233,366	1,304,209
 TOTAL SALARIES AND RELATED EXPENSES	 1,293,852	 681,241	 1,991,713	 521,981	 285,110	 468,633	 1,148,400	 6,390,930
 Food supplies and distribution	 26,533,846	 60,444	 8,044	 7,859	 92,341	 8,841	 13,169	 26,724,544
Donated food	434,595	3,601,530	31,796,147	166,753	-	-	-	35,999,025
USDA commodities distributed	-	153,093	1,856,489	-	-	-	-	2,009,582
Internal food purchases and/or reimbursement	(1,957,425)	396,436	589,699	971,768	(14,514)	6,271	7,765	-
Product transportation	1,772,145	137,161	799,673	47,036	8,465	-	5,454	2,769,934
Office and administration	28,116	9,180	407,399	21,901	9,505	204,443	672,385	1,352,929
Occupancy	259,346	95,035	476,069	54,919	32,148	26,279	13,466	957,262
Depreciation	82,482	100,249	236,076	27,190	31,465	20,054	17,860	515,376
Communication expense	16,406	27,902	58,053	21,314	11,916	19,416	279,665	434,672
Travel and conferences	52,921	-	4,228	589	1,564	25,916	18,674	103,892
National network dues	-	-	1,500	-	-	21,940	-	23,440
Professional fees	31,225	52,629	117,270	30,139	12,621	83,229	66,573	393,686
Other special event costs	-	-	-	-	-	-	356,910	356,910
Insurance	33,696	16,848	75,818	8,424	16,848	8,424	8,424	168,482
 TOTAL EXPENSES	 28,581,205	 5,331,748	 38,418,178	 1,879,873	 487,469	 893,446	 2,608,745	 78,200,664
 Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(174,877)	(174,877)
 Direct costs and expenses of Project Preserve® program	 (28,581,205)	 -	 -	 -	 -	 -	 -	 (28,581,205)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 5,331,748	 \$ 38,418,178	 \$ 1,879,873	 \$ 487,469	 \$ 893,446	 \$ 2,433,868	 \$ 49,444,582

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS CENTER	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 678,024	\$ 515,467	\$ 1,310,415	\$ 324,355	\$ 151,087	\$ 263,981	\$ 757,705	\$ 4,001,034
Contract labor	224,255	27,044	162,421	27,044	4,813	61,711	21,273	528,561
Payroll taxes and benefits	185,490	136,972	372,470	115,524	44,963	75,303	154,204	1,084,926
 TOTAL SALARIES AND RELATED EXPENSES	 1,087,769	 679,483	 1,845,306	 466,923	 200,863	 400,995	 933,182	 5,614,521
 Food supplies and distribution	 27,292,356	 60,907	 38,340	 103,383	 59,873	 12,820	 13,780	 27,581,459
Donated food	1,134,668	3,009,599	24,555,565	168,412	-	-	-	28,868,244
USDA commodities distribution	-	161,414	1,752,589	-	-	-	-	1,914,003
Internal food purchases and/or reimbursement	(1,799,986)	451,238	388,469	962,469	(12,832)	9,832	810	-
Product transportation	1,890,130	139,653	759,697	53,327	9,280	-	5,734	2,857,821
Office and administration	14,419	6,159	352,499	9,513	5,241	206,000	586,397	1,180,228
Occupancy	312,268	81,614	398,600	48,651	28,444	11,830	9,816	891,223
Depreciation	83,225	106,591	259,297	29,029	22,449	19,008	17,035	536,634
Communication expense	14,919	24,962	53,534	19,795	10,435	18,648	245,345	387,638
Travel and conferences	23,762	60	4,639	636	-	48,593	9,095	86,785
National network dues	-	-	1,500	-	-	19,148	-	20,648
Professional fees	51,980	45,635	75,900	21,185	17,545	84,404	72,945	369,594
Other special event costs	-	-	-	-	-	-	210,012	210,012
Insurance	30,618	15,308	68,891	7,655	15,308	7,655	7,655	153,090
 TOTAL EXPENSES	 30,136,128	 4,782,623	 30,554,826	 1,890,978	 356,606	 838,933	 2,111,806	 70,671,900
 Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(160,064)	(160,064)
 Direct costs and expenses of Project Preserve® program	 (30,136,128)	 -	 -	 -	 -	 -	 -	 (30,136,128)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 4,782,623	 \$ 30,554,826	 \$ 1,890,978	 \$ 356,606	 \$ 838,933	 \$ 1,951,742	 \$ 40,375,708

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 1 - GENERAL

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

The Food Bank also operates the Project Preserve<sup>®</sup> program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America<sup>®</sup> affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2014 and 2013, the program contributed over \$1.5 million each year to the Food Bank's mission to feed hungry people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Food Bank had no permanently restricted net assets as of June 30, 2014 or 2013.

Contributions and Support

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

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

The Food Bank also receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

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

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.

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.

Project Preserve<sup>®</sup> Revenue Recognition

Project Preserve<sup>®</sup> sales are reported net of allowances for discounts and returns. Revenue is recognized when the product is shipped to the customer. Project Preserve<sup>®</sup> sells products primarily to out-of-area agencies in the Feeding America<sup>®</sup> network, but also sells to partner agencies within the Food Bank's local area. In addition to selling purchased product, the program also operates a cook/chill program and produces custom product assembly products, such as backpacks and emergency food boxes, for national distribution. During 2014, this production assembled over 1,210,000 backpacks (1,200,000 backpacks in 2013) and over 120,000 disaster relief food boxes for Feeding American<sup>®</sup> affiliates (over 8,000 boxes in 2013).

Cash

Cash consists principally of checking account balances.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (deemed immaterial by management at June 30, 2014 and not applicable at June 30, 2013). Amortization of the discount, if any, is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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

Accounts Receivable

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

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

Management estimated the allowance for doubtful accounts to be \$33,774 at June 30, 2014 (\$0 at June 30, 2013).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores and Feeding America<sup>®</sup> is valued at \$1.72 per pound in 2014 (\$1.69 per pound in 2013), the estimated average market value at the date of gift, based on a study commissioned by Feeding America<sup>®</sup>. 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 and taxable bond funds. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equity funds and taxable bond funds are carried at their quoted market value on the last business day of the reporting period. Interest and dividends, as well as changes in unrealized gains and losses, are recognized currently in the Statement of Activities.

Property and Equipment and Depreciation

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

Designated Unrestricted Net Assets

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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

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

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

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

*Donated inventory* - The value of donated food is based on poundage times a standard rate. The donated food rate is updated annually based on a study commissioned by Feeding America®, which is classified as Level 3. The inputs used in the valuation include twenty-nine product types calculating a weighted average value for the year based on actual donated pounds by type on a national level.

There have been no changes in the valuation methodologies 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - 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:

Emergency Food Box - provided over 2,950,000 pounds of food during 2014 (2,700,000 pounds in 2013) in emergency staples to families in need through its sixteen satellite centers in Davidson County.

Community Food Partners - provided over 17,500,000 pounds of food during 2014 (14,875,000 pounds in 2013) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs. Included in this program is Middle Tennessee's Table, which collects perishable and non-perishable food from more than 189 food donors, such as grocery stores, retailers, wholesalers and bakeries, which is then distributed to more than 450 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. These products include meats, produce, dairy, bread, bakery items and dry products. During 2014, the Food Bank distributed over 9,800,000 pounds of food (equivalent to more than 8.1 million meals) under this program. (The Food Bank distributed 5,300,000 pounds equivalent to more than 4 million meals in 2013).

Also included in Community Food Partners is the Mobile Pantry program. Mobile Pantry travels to the forty-six county service area and delivers large boxes of perishable and non-perishable food and supplies that are distributed to people in need. During 2014, over 5,900,000 pounds of food (4,800,000 pounds of food in 2013) were distributed through this program.

Children's Programs - includes Kids Café®, At Risk After School Program and the Backpack Program. Kids Café® and At Risk After School Program operates a weekly feeding program for children at risk of hunger at several area community centers and provided over 151,000 meals during 2014 (123,000 meals in 2013). 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 2014, the Food Bank distributed nearly 269,000 backpacks to hungry children (266,000 backpacks in 2013).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation (Continued)

Children's Programs (continued)

A School Food Pantry was opened in February 2013. The program is designed to increase food access for families in need and may have a permanent residence within a school or may operate through a mobile pantry distribution where food is brought to the school campus and distributed once a month. Fourteen sites were operated during 2014, providing over 104,000 pounds of food for families in need (one site operated from February 2013 to June 30, 2013 provided over 8,500 lbs of food)

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

Supporting Services

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

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

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.

Shipping and Handling

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

The Food Bank files a U.S. Federal Form 990 for organizations exempt from income tax. Returns for years prior to fiscal year end 2011 are now closed and no longer open to further examination by the Internal Revenue Service.

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2014 and November 6, 2014, 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, 2014 AND 2013

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Due in less than one year	\$ 224,887	\$ 513,680
Due in one to five years	<u>70,226</u>	<u>-</u>
Less: Allowance for uncollectible pledges	<u>(8,909)</u>	<u>(8,909)</u>
	<u>\$ 286,204</u>	<u>\$ 504,771</u>

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Donated food	\$ 1,813,424	\$ 1,288,345
USDA inventory	382,045	775,141
Cook/chill manufactured inventory	74,781	23,072
Purchased inventory	<u>1,892,053</u>	<u>2,082,555</u>
	<u>\$ 4,162,303</u>	<u>\$ 4,169,113</u>

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Liquid money market funds	\$ 85,971	\$ 146,836
Certificates of deposit	120,424	120,209
Equity funds	900,242	725,568
Taxable bond funds	<u>384,670</u>	<u>366,395</u>
	<u>\$ 1,491,307</u>	<u>\$ 1,359,008</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 5 - INVESTMENTS (CONTINUED)

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

	<u>2014</u>	<u>2013</u>
Realized and unrealized gains - net	\$ 176,390	\$ 107,742
Dividends and interest income	<u>17,368</u>	<u>18,411</u>
	<u>\$ 193,758</u>	<u>\$ 126,153</u>

NOTE 6 - FAIR VALUE MEASUREMENTS

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

	<u>2014</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity funds:				
Large Value	\$ 759,628	\$ 759,628	\$ -	\$ -
Mid Value	<u>140,614</u>	<u>140,614</u>	<u>-</u>	<u>-</u>
Total equity funds	900,242	900,242	-	-
Taxable bond funds:				
Intermediate term	<u>384,670</u>	<u>384,670</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,284,912	1,284,912	-	-
Donated inventory	<u>1,813,424</u>	<u>-</u>	<u>-</u>	<u>1,813,424</u>
Total	<u>\$ 3,098,336</u>	<u>\$ 1,284,912</u>	<u>\$ -</u>	<u>\$ 1,813,424</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2013			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity funds:				
Large Value	\$ 610,577	\$ 610,577	\$ -	\$ -
Mid Value	114,991	114,991	-	-
Total equity funds	725,568	725,568	-	-
Taxable bond funds:				
Intermediate term	366,395	366,395	-	-
Total investments at fair value	1,091,963	1,091,963	-	-
Donated inventory	1,288,345	-	-	1,288,345
Total	<u>\$ 2,380,308</u>	<u>\$ 1,091,963</u>	<u>\$ -</u>	<u>\$ 1,288,345</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 years ended June 30:

	<u>Donated Inventory</u>	
	<u>2014</u>	<u>2013</u>
Beginning of year	\$ 1,288,345	\$ 1,209,947
Donated food received	36,524,104	28,946,642
Donated food distributed	<u>(35,999,025)</u>	<u>(28,868,244)</u>
End of year	<u>\$ 1,813,424</u>	<u>\$ 1,288,345</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	7,050,522	7,036,309
Office and warehouse furniture and equipment	1,867,973	1,693,462
Transportation equipment	1,272,758	1,338,634
Cook/chill equipment	566,098	560,279
Culinary arts center equipment	<u>129,206</u>	<u>129,206</u>
	12,221,143	12,092,476
Less accumulated depreciation	<u>5,143,416</u>	<u>4,881,184</u>
	<u>\$ 7,077,727</u>	<u>\$ 7,211,292</u>

NOTE 8 - DEBT

Debt consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
<u>Line of Credit</u>		
\$2,500,000 line of credit to a financial institution, subject to a borrowing base calculated on eligible accounts and inventory. The line has been extended through January 30, 2015. It is management's intent to extend or renew the line of credit upon maturity. Interest is payable monthly at rate of one-month LIBOR plus 2.25% (2.40% at June 30, 2014).	\$ 564,400	\$ 705,705
<u>Note Payable</u>		
\$650,000 note payable to a financial institution to finance renovations to the existing building. The note matures in 47 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, 2014). Subject to certain financial covenants for debt service, liquidity and capital expenditures.	<u>62,916</u>	<u>127,917</u>
Total debt	<u>\$ 627,316</u>	<u>\$ 833,622</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 8 - DEBT (CONTINUED)

All annual principal maturities of debt are due by June 30, 2015.

Total interest expense incurred by the Food Bank was \$20,000 in 2014 and \$22,465 in 2013. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 122,295	\$ 183,726
Donations for Children's programs (backpacks and summer feeding programs)	304,572	378,803
Donations for western distribution center capital campaign	227,470	-
Donations for mobile pantries and agency equipment	619,538	437,945
Donation for out of area food bank purchases	11,536	18,310
Donations for Culinary Arts Program scholarships	8,000	-
Donations for other equipment purchases	88,536	34,663
	<u>\$ 1,381,947</u>	<u>\$ 1,053,447</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 10 - IN-KIND DONATIONS

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

	<u>2014</u>	<u>2013</u>
Special events:		
Goods and services	\$ 100,631	\$ 80,950
Food supplies and distribution	31,944	3,327
Vehicles and equipment	18,676	-
Repairs and maintenance	-	11,578
Computer equipment and software	84,968	-
Office and administration:		
Marketing	399,836	371,672
Other consulting	40,999	-
	<u>\$ 677,054</u>	<u>\$ 467,527</u>

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The Food Bank maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Food Bank's cash balance, from time to time, may exceed statutory limits. The Food Bank has not experienced any losses in such accounts and considers this to be a normal business risk.

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

NOTE 12 - EMPLOYEE BENEFIT PLAN

The Food Bank sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowed under the IRC. In addition, the plan requires the Food Bank to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Food Bank contributions to the plan for the year ended June 30, 2014, amounted to \$254,566 (\$221,592 for 2013).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 13 - LEASES

During 2013, the Food Bank entered into a non-cancelable warehouse lease for Project Preserve<sup>®</sup> warehousing and operations. The lease is for a period of five years, expiring March 31, 2018, with a three year renewal option.

Additionally in 2014, the Food Bank entered into an additional two-year warehouse lease through May 31, 2016.

Lease expense under these agreements and other cancellable or short term leases amounted to \$172,756 and \$229,648 during years ended June 30, 2014 and 2013, respectively.

Future minimum lease payments required under the non-cancelable leases are as follows:

For years ended June 30:

2015	\$	173,834
2016		170,292
2017		102,810
2018		<u>69,920</u>
Total	\$	<u>516,856</u>

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

	FEDERAL CFDA NUMBER		GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2013	7/1/13 - 6/30/14		(ACCRUED) DEFERRED REVENUE 6/30/14
							RECEIPTS	EXPENDITURES	
EXPENDITURES OF FEDERAL AWARDS									
U. S. DEPARTMENT OF AGRICULTURE									
Passed Through Tennessee Department of Human Services									
Child and Adult Care Food Program (CACFP)	10.558		N/A	*	*	\$ (5,593)	\$ 157,716	\$ 152,123	\$ -
Summer Food Service Program (SFSP)	10.559		N/A	05/01/13 - 09/30/13	*	(58,097)	94,901	36,804	-
Summer Food Service Program (SFSP)	10.559		N/A	05/01/14 - 09/30/14	*	-	33,807	75,280	(41,473)
Passed Through Tennessee Department of Agriculture									
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	10/01/12 - 09/30/13	\$203,790	(142,598)	142,598	-	-
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-32501-00	10/01/12 - 09/30/13	*	775,141	149,137	924,278	-
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	10/01/13 - 09/30/14	\$241,223	-	131,824	164,503	(32,679)
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-32501-00	10/01/13 - 09/30/14	*	-	1,467,349	1,085,304	382,045
TOTAL U. S. DEPT OF AGRICULTURE						<u>568,853</u>	<u>2,177,332</u>	<u>2,438,292</u>	<u>307,893</u>
DEPARTMENT OF HOMELAND SECURITY									
Passed Through United Way of Middle Tennessee:									
Emergency Management Food and Shelter Program	97.024		765200-002	*	\$55,000	-	55,000	55,000	-
Emergency Management Food and Shelter Program	97.024		781800-002	*	\$55,191	-	16,368	32,736	(16,368)
TOTAL DEPARTMENT OF HOMELAND SECURITY						-	71,368	87,736	(16,368)
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 568,853</u>	<u>\$ 2,248,700</u>	<u>\$ 2,526,028</u>	<u>\$ 291,525</u>

Total Expenditures by CFDA Number:

10.558	\$ 152,123
10.559	112,084
10.568 & 10.569	2,174,085
97.024	<u>87,736</u>
	<u>\$ 2,526,028</u>

\* Not specified.

(1) Denotes a major program

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, *Audits of States, Local Governments, and Non-Profit Organizations*.

## OTHER REPORTS

INDEPENDENT AUDITOR'S 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, 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, the financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Food Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

*Kraft CPAs PLLC*

Nashville, Tennessee  
November 6, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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 *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, 2014. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Food Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Second Harvest Food Bank of Middle Tennessee, Inc.'s compliance.

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Second Harvest Food Bank of Middle Tennessee, Inc. complied, in all material respects, with the types of 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, 2014.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Kraj+CPAs PLLC*

Nashville, Tennessee  
November 6, 2014

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes        X   no

*Federal Awards*

Internal control over major programs:

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

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

Unmodified

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

\_\_\_\_\_ yes        X   no

Identification of major programs:

**CFDA Number(s)      Name of Federal Program or Cluster**

10.568 and 10.569      Emergency Food Assistance Program - Administrative Costs and Commodities

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

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes        X   no