

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013 AND 2012

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

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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, 2013 and 2012, 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. 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, 2013 and 2012, 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.

CORRECTION OF ERROR

As discussed in Note 14 to the financial statements, certain errors resulting in overstatement of amounts previously reported in assets and revenue as of June 30, 2012, were discovered by management of the Food Bank during the current year. Accordingly, amounts reported have been restated in the 2012 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2012 to correct the error. Our opinion is not modified with respect to this matter.

Y. Kraft CPAs PLLC

Nashville, Tennessee

November 20, 2013

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u> (Restated)
ASSETS		
Cash	\$ 48,086	\$ 470,720
Accounts receivable	1,373,236	1,656,450
Grants receivable	206,288	67,459
Pledges receivable, net	504,771	540,956
Inventories	4,169,113	4,173,333
Prepaid expenses	132,808	37,146
Investments	1,359,008	1,214,892
Property and equipment, net	<u>7,211,292</u>	<u>7,568,892</u>
TOTAL ASSETS	<u>\$ 15,004,602</u>	<u>\$ 15,729,848</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,575,634	\$ 2,188,728
Deferred grant revenue	775,141	234,900
Line of credit	705,705	1,287,900
Notes payable	<u>127,917</u>	<u>392,917</u>
TOTAL LIABILITIES	<u>3,184,397</u>	<u>4,104,445</u>
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,288,345	1,209,947
Property and equipment, less related debt	7,083,375	7,175,975
Board designated	300,000	300,000
Undesignated	<u>2,095,038</u>	<u>2,174,023</u>
Total unrestricted	10,766,758	10,859,945
Temporarily restricted	<u>1,053,447</u>	<u>765,458</u>
TOTAL NET ASSETS	<u>11,820,205</u>	<u>11,625,403</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,004,602</u>	<u>\$ 15,729,848</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013		
	Unrestricted	Temporarily Restricted	Totals
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 27,847,571	\$ -	\$ 27,847,571
Contributions	5,401,849	1,787,227	7,189,076
Government grants	2,630,502	-	2,630,502
Shared maintenance fees	521,098	-	521,098
Culinary arts center	133,294	-	133,294
Special events and activities	535,772	-	535,772
Less: direct benefits to donors	(160,064)	-	(160,064)
Investment income (loss)	126,153	-	126,153
Agency transportation reimbursement	167,661	-	167,661
Other income	65,327	-	65,327
Net assets released in satisfaction of program restrictions	1,499,238	(1,499,238)	-
TOTAL PUBLIC SUPPORT AND REVENUE	38,768,401	287,989	39,056,390
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	28,652,819	-	28,652,819
Sales to local agencies	1,862,110	-	1,862,110
Donated food and services	1,135,319	-	1,135,319
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	31,650,248	-	31,650,248
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	(30,136,128)	-	(30,136,128)
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	1,514,120	-	1,514,120
TOTAL SUPPORT AND REVENUE	40,282,521	287,989	40,570,510
EXPENSES			
Program services:			
Emergency Food Box	4,782,623	-	4,782,623
Community Food Partners	30,450,601	-	30,450,601
Children's Programs	1,910,647	-	1,910,647
Culinary Arts Center	356,606	-	356,606
Total Program Services	37,500,477	-	37,500,477
Supporting services:			
Management and general	923,489	-	923,489
Fund raising	1,951,742	-	1,951,742
Total Supporting Services	2,875,231	-	2,875,231
TOTAL EXPENSES	40,375,708	-	40,375,708
CHANGE IN NET ASSETS	(93,187)	287,989	194,802
NET ASSETS - BEGINNING OF YEAR	10,859,945	765,458	11,625,403
NET ASSETS - END OF YEAR	\$ 10,766,758	\$ 1,053,447	\$ 11,820,205

See accompanying notes to financial statements.

2012 (Restated)		
Unrestricted	Temporarily Restricted	Totals
\$ 20,020,679	\$ -	\$ 20,020,679
4,707,547	1,317,925	6,025,472
1,417,985	-	1,417,985
495,216	-	495,216
127,213	-	127,213
506,891	-	506,891
(123,555)	-	(123,555)
(94,279)	-	(94,279)
122,631	-	122,631
345,497	-	345,497
1,051,399	(1,051,399)	-
<u>28,577,224</u>	<u>266,526</u>	<u>28,843,750</u>
29,589,062	-	29,589,062
1,743,461	-	1,743,461
813,042	-	813,042
32,145,565	-	32,145,565
<u>(31,069,554)</u>	<u>-</u>	<u>(31,069,554)</u>
1,076,011	-	1,076,011
<u>29,653,235</u>	<u>266,526</u>	<u>29,919,761</u>
5,031,773	-	5,031,773
21,809,996	-	21,809,996
1,852,386	-	1,852,386
373,361	-	373,361
<u>29,067,516</u>	<u>-</u>	<u>29,067,516</u>
776,532	-	776,532
<u>1,756,965</u>	<u>-</u>	<u>1,756,965</u>
2,533,497	-	2,533,497
<u>31,601,013</u>	<u>-</u>	<u>31,601,013</u>
(1,947,778)	266,526	(1,681,252)
<u>12,807,723</u>	<u>498,932</u>	<u>13,306,655</u>
<u>\$ 10,859,945</u>	<u>\$ 765,458</u>	<u>\$ 11,625,403</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 194,802	\$ (1,681,252)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	536,634	566,471
Noncash contribution of property and equipment	-	(33,195)
Noncash contribution of investments	(35,799)	(40,706)
Realized and unrealized (gains) losses on investments	(107,742)	121,982
(Increase) decrease in:		
Accounts receivable	283,214	(12,461)
Grants receivable	(138,829)	1,169
Pledges receivable	36,185	(234,384)
Inventories	4,220	1,872,325
Prepaid expenses	(95,662)	(24,298)
Increase (decrease) in:		
Accounts payable and accrued expenses	(613,094)	(1,619,588)
Deferred grant revenue	540,241	(29,606)
TOTAL ADJUSTMENTS	<u>409,368</u>	<u>567,709</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>604,170</u>	<u>(1,113,543)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	35,799	1,166,527
Purchases of investments	(36,374)	(43,984)
Additions to property and equipment	<u>(179,034)</u>	<u>(226,278)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(179,609)</u>	<u>896,265</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) borrowings under line of credit	(582,195)	287,900
Payments on notes payable	<u>(265,000)</u>	<u>(65,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(847,195)</u>	<u>222,900</u>
NET INCREASE (DECREASE) IN CASH	(422,634)	5,622
CASH - BEGINNING OF YEAR	<u>470,720</u>	<u>465,098</u>
CASH - END OF YEAR	<u>\$ 48,086</u>	<u>\$ 470,720</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 22,465</u>	<u>\$ 62,429</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, 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 distributed	-	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	734,294	72,996	9,280	5,734	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	319,778	48,651	28,444	90,652	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	 30,450,601	 1,910,647	 356,606	 923,489	 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	 \$ 30,450,601	 \$ 1,910,647	 \$ 356,606	 \$ 923,489	 \$ 1,951,742	 \$ 40,375,708

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS CENTER	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 680,621	\$ 408,967	\$ 1,351,261	\$ 294,681	\$ 131,154	\$ 200,193	\$ 648,090	\$ 3,714,967
Contract labor	325,591	68,214	132,075	59,849	26,867	34,926	37,852	685,374
Payroll taxes and benefits	186,449	104,602	365,133	75,625	35,127	136,630	163,619	1,067,185
 TOTAL SALARIES AND RELATED EXPENSES	 1,192,661	 581,783	 1,848,469	 430,155	 193,148	 371,749	 849,561	 5,467,526
 Food supplies and distribution	 28,186,417	 80,500	 18,144	 27,538	 64,779	 55,710	 12,014	 28,445,102
Donated food	836,090	3,142,297	17,166,563	165,912	-	-	-	21,310,862
USDA commodities distribution	-	-	1,109,021	-	-	-	-	1,109,021
Internal food purchases and/or reimbursement	(1,827,434)	530,288	265,891	1,030,000	1,255	-	-	-
Product transportation	1,915,751	132,996	631,190	71,183	9,187	5,663	5,621	2,771,591
Office and administration	62,243	318,293	98,249	18,354	15,837	47,168	450,360	1,010,504
Occupancy	496,447	73,260	255,842	36,403	26,467	77,338	8,720	974,477
Depreciation	85,471	113,309	278,530	30,742	21,867	19,325	17,227	566,471
Communication expense	36,492	19,293	38,586	19,293	10,204	16,767	221,383	362,018
Travel and conferences	37,250	-	2,522	794	1,683	34,806	11,698	88,753
National network dues	-	-	-	-	-	9,626	-	9,626
Professional fees	24,685	28,013	44,155	16,142	17,193	132,510	25,598	288,296
Other special event costs	-	-	-	-	-	-	272,468	272,468
Insurance	23,481	11,741	52,834	5,870	11,741	5,870	5,870	117,407
 TOTAL EXPENSES	 31,069,554	 5,031,773	 21,809,996	 1,852,386	 373,361	 776,532	 1,880,520	 62,794,122
 Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(123,555)	(123,555)
 Direct costs and expenses of Project Preserve® program	 (31,069,554)	 -	 -	 -	 -	 -	 -	 (31,069,554)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 5,031,773	 \$ 21,809,996	 \$ 1,852,386	 \$ 373,361	 \$ 776,532	 \$ 1,756,965	 \$ 31,601,013

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 1 - GENERAL

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

The Food Bank also operates the Project Preserve® program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America® affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2013 and 2012, the program contributed over \$1 million each year to the Food Bank's mission to feed hungry people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Food Bank had no permanently restricted net assets as of June 30, 2013 or 2012.

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, 2013 AND 2012

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[®] Revenue Recognition

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

Cash

Cash consists principally of checking account balances.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (not applicable at June 30, 2013 and 2012 as all pledges are expected to be received within one year). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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

Accounts Receivable

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

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

Accounts receivable are deemed to be fully collectible by management, and no allowance for doubtful accounts is considered necessary at June 30, 2013 and 2012.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores and Feeding America® is valued at \$1.69 per pound in 2013 (\$1.66 per pound in 2012), 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 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, 2013 AND 2012

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, 2013 AND 2012

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 2,700,000 pounds of food during 2013 (2,900,000 pounds in 2012) in emergency staples to families in need through its seventeen satellite centers in Davidson County.

Community Food Partners - provided over 14,875,000 pounds of food during 2013 (11,150,000 pounds in 2012) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs. The Middle Tennessee's Table program collects perishable and non-perishable food from more than 189 food donors, such as grocery stores, retailers, wholesalers and bakeries, which is then distributed to more than 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 2013, the Food Bank distributed over 5,300,000 pounds of food (equivalent to more than 4 million meals) under this program. (The Food Bank distributed 4,900,000 pounds equivalent to more than 4 million meals in 2012).

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 2013, over 4,800,000 pounds of food (3,100,000 pounds of food in 2012) were distributed through this program.

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 123,000 meals and 97,000 snacks during 2013 (116,000 meals and no snacks in 2012). 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 2013, the Food Bank distributed nearly 266,000 backpacks to hungry children (265,000 backpacks in 2012).

A School Food Pantry pilot was opened in February 2013 at one location. 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. From February to June 30, 2013, over 8,500 lbs of food was distributed for families in need at this one school location.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation (Continued)

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

Supporting Services

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

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

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[®] 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[®] program in the Statement of Activities.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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 2010 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, 2013 and November 20, 2013, 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, 2013 AND 2012

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Due in less than one year	\$ 513,680	\$ 568,706
Less: Allowance for uncollectible pledges	<u>(8,909)</u>	<u>(27,750)</u>
	<u>\$ 504,771</u>	<u>\$ 540,956</u>

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Donated food	\$ 1,288,345	\$ 1,209,947
USDA inventory	775,141	234,900
Cook/chill manufactured inventory	23,072	16,142
Purchased inventory	<u>2,082,555</u>	<u>2,712,344</u>
	<u>\$ 4,169,113</u>	<u>\$ 4,173,333</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Liquid money market funds	146,836	\$ 128,354
Certificates of deposit	120,209	119,930
Equity funds	725,568	598,661
Taxable bond funds	<u>366,395</u>	<u>367,947</u>
	<u>\$ 1,359,008</u>	<u>\$ 1,214,892</u>

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

	<u>2013</u>	<u>2012</u>
Realized and unrealized gains (losses) - net	\$ 107,742	\$ (121,982)
Dividends and interest income	<u>18,411</u>	<u>27,703</u>
	<u>\$ 126,153</u>	<u>\$ (94,279)</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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:

		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		<u>114,991</u>	<u>114,991</u>	<u>-</u>	<u>-</u>
Total equity funds		725,568	725,568	-	-
Taxable bond funds:					
Intermediate term		<u>366,395</u>	<u>366,395</u>	<u>-</u>	<u>-</u>
Total investments at fair value		1,091,963	1,091,963	-	-
Donated inventory		<u>1,288,345</u>	<u>-</u>	<u>-</u>	<u>1,288,345</u>
Total	\$	<u><u>2,380,308</u></u>	<u><u>1,091,963</u></u>	<u><u>-</u></u>	<u><u>1,288,345</u></u>
		2012			
		<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:					
Equity funds:					
Large Value	\$	504,277	\$ 504,277	\$ -	\$ -
Mid Value		<u>94,384</u>	<u>94,384</u>	<u>-</u>	<u>-</u>
Total equity funds		598,661	598,661	-	-
Taxable bond funds:					
Intermediate term		<u>367,947</u>	<u>367,947</u>	<u>-</u>	<u>-</u>
Total investments at fair value		966,608	966,608	-	-
Donated inventory		<u>1,209,947</u>	<u>-</u>	<u>-</u>	<u>1,209,947</u>
Total	\$	<u><u>2,176,555</u></u>	<u><u>966,608</u></u>	<u><u>-</u></u>	<u><u>1,209,947</u></u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	<u>Donated Inventory</u>	
	<u>2013</u>	<u>2012</u>
Beginning of year	\$ 1,209,947	\$ 1,780,730
Donated food received	28,946,642	20,740,079
Donated food distributed	<u>(28,868,244)</u>	<u>(21,310,862)</u>
End of year	<u>\$ 1,288,345</u>	<u>\$ 1,209,947</u>

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	7,036,309	7,036,309
Office and warehouse furniture and equipment	1,693,462	1,561,786
Transportation equipment	1,338,634	1,535,601
Cook/chill equipment	560,279	563,532
Culinary arts center equipment	<u>129,206</u>	<u>81,847</u>
	12,092,476	12,113,661
Less accumulated depreciation	<u>4,881,184</u>	<u>4,544,769</u>
	<u>\$ 7,211,292</u>	<u>\$ 7,568,892</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 8 - DEBT

Debt consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
<u>Line of Credit</u>		
\$2,000,000 unsecured line of credit to a financial institution. The line has been extended through January 31, 2014. It is management's intent to extend or renew the line of credit upon maturity. Interest is payable monthly at rate of one-month LIBOR plus 2.5% (2.693% at June 30, 2013). Subject to certain financial covenants for debt service, liquidity and capital expenditures.	\$ 705,705	\$ 1,287,900
<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, 2013).	<u>127,917</u>	<u>392,917</u>
Total debt	<u>\$ 833,622</u>	<u>\$ 1,680,817</u>

Annual principal maturities of debt at June 30, 2013 are as follows:

For the year ending June 30:

2014	\$ 770,705
2015	<u>62,917</u>
	<u>\$ 833,622</u>

Total interest expense incurred by the Food Bank was \$22,465 in 2013 and \$62,429 in 2012. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 183,726	\$ 184,831
Donations for Children's programs	378,803	147,190
Donations for Emergency Food Box program	-	32,884
Donations for Community Food Partners	437,945	170,553
Donation for out of area food bank purchases	18,310	-
Donations to purchase warehouse management system	-	125,000
Donations for other equipment purchases	34,663	105,000
	<u>\$ 1,053,447</u>	<u>\$ 765,458</u>

NOTE 10 - IN-KIND DONATIONS

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

	<u>2013</u>	<u>2012</u>
Property and equipment	\$ -	\$ 33,195
Special events:		
Goods and services	80,950	104,881
Food supplies and distribution	3,327	61,341
Occupancy	-	54,001
Repairs and maintenance	11,578	-
Office and administration:		
Marketing	371,672	221,097
	<u>\$ 467,527</u>	<u>\$ 474,515</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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 Organization 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, 2013, amounted to \$221,592 (\$183,243 for 2012).

NOTE 13 - LEASES

During 2013, the Food Bank entered into a non-cancelable warehouse lease for Project Preserve[®] warehousing and operations. The lease is for a period of five years, expiring March 31, 2018, with a three year renewal option. Lease expense under this agreement and other cancellable or short term leases amounted to \$229,648 and \$353,907 during years ended June 30, 2013 and 2012, respectively.

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

<u>For years ended June 30:</u>		
2014	\$	94,070
2015		96,830
2016		99,705
2017		102,810
2018		69,920
Total	\$	<u>463,335</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 14 - PRIOR PERIOD ADJUSTMENT

The Food Bank has recorded a prior period adjustment to correct certain immaterial differences in the June 30, 2012 balances that were identified by management subsequent to the prior year end. The effect of this adjustment was to collectively reduce cash, accounts receivable and pledges receivable and reduce net assets by \$91,570 as of June 30, 2012, and to reduce revenues for the year ended June 30, 2012 by the same amount.