

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2005 AND 2004

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2005 and 2004, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Middle Tennessee, Inc. as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
December 29, 2005

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Operating assets:		
Cash and cash equivalents	\$ 141,808	\$ 142,922
Accounts receivable	494,958	498,150
Pledges receivable - Note 2	375,484	376,825
Inventories - Note 3	2,163,019	1,662,320
Prepaid expenses	97,708	46,245
Investments - Note 4	1,076,919	984,111
Property and equipment - at cost, less accumulated depreciation - Note 5	7,470,035	7,404,530
Bond issue costs - net of accumulated amortization	100,973	106,942
Capital campaign assets:		
Cash and cash equivalents	419,698	656,182
Pledges receivable - Note 2	537,956	836,147
Investments - Note 4	<u>-</u>	<u>83,180</u>
TOTAL ASSETS	<u>\$ 12,878,558</u>	<u>\$ 12,797,554</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 629,242	\$ 500,235
Deferred grant revenue	38,386	171,893
Capital lease obligation - Note 7	24,305	93,043
Line of credit obligation - Note 6	250,000	225,000
Bonds payable - Note 6	<u>2,702,375</u>	<u>3,577,375</u>
TOTAL LIABILITIES	<u>3,644,308</u>	<u>4,567,546</u>
COMMITMENTS AND CONTINGENCIES - Notes 7, 9 and 11		
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,433,111	1,107,033
Property and equipment, less related debt	4,743,355	3,734,112
Other Board designations - Note 1	700,000	300,000
Undesignated	<u>1,615,491</u>	<u>1,472,200</u>
Total unrestricted	8,491,957	6,613,345
Temporarily restricted - Note 1	<u>742,293</u>	<u>1,616,663</u>
TOTAL NET ASSETS	<u>9,234,250</u>	<u>8,230,008</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,878,558</u>	<u>\$ 12,797,554</u>

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUES - PROJECT PRESERVE PROGRAM			
Sales to out of area network agencies, net of discount	\$ 6,507,166	\$ -	\$ 6,507,166
Donated food utilized and distributed	<u>716,450</u>	<u>-</u>	<u>716,450</u>
TOTAL REVENUES - PROJECT PRESERVE PROGRAM	7,223,616	-	7,223,616
DIRECT COSTS AND EXPENSES - PROJECT PRESERVE PROGRAM	<u>6,908,054</u>	<u>-</u>	<u>6,908,054</u>
GROSS PROFIT FROM PROJECT PRESERVE PROGRAM	<u>315,562</u>	<u>-</u>	<u>315,562</u>
SUPPORT AND REVENUE			
Donated food	5,581,158	-	5,581,158
Contributions	1,284,619	874,802	2,159,421
Government grants	697,812	-	697,812
Agency recovery fees	842,936	-	842,936
Culinary arts program	89,556	-	89,556
Special events and activities	321,151	-	321,151
Less: direct benefits to donors	(46,951)	-	(46,951)
Investment income - Note 4	105,950	-	105,950
Class action lawsuit settlement proceeds - Note 9	527,000	-	527,000
Other income	14,039	-	14,039
Net assets released in satisfaction of program restrictions	<u>1,749,172</u>	<u>(1,749,172)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>11,166,442</u>	<u>(874,370)</u>	<u>10,292,072</u>
EXPENSES			
Program services:			
Emergency Food Box	2,895,193	-	2,895,193
Food Recovery	4,730,061	-	4,730,061
Kids Cafe Program	487,191	-	487,191
Culinary Arts Program	<u>96,629</u>	<u>-</u>	<u>96,629</u>
Total Program Services	<u>8,209,074</u>	<u>-</u>	<u>8,209,074</u>
Supporting services:			
Management and general	812,838	-	812,838
Fund raising	524,431	-	524,431
Capital campaign	<u>57,049</u>	<u>-</u>	<u>57,049</u>
Total Supporting Services	<u>1,394,318</u>	<u>-</u>	<u>1,394,318</u>
TOTAL EXPENSES	<u>9,603,392</u>	<u>-</u>	<u>9,603,392</u>
CHANGE IN NET ASSETS	1,878,612	(874,370)	1,004,242
NET ASSETS - BEGINNING OF YEAR	<u>6,613,345</u>	<u>1,616,663</u>	<u>8,230,008</u>
NET ASSETS - END OF YEAR	<u>\$ 8,491,957</u>	<u>\$ 742,293</u>	<u>\$ 9,234,250</u>

The accompanying notes are an integral part of these financial statements.

2004		
Unrestricted	Temporarily Restricted	Totals
\$ 3,744,613	\$ -	\$ 3,744,613
557,201	-	557,201
4,301,814	-	4,301,814
4,184,202	-	4,184,202
117,612	-	117,612
5,966,787	-	5,966,787
1,067,689	823,837	1,891,526
794,476	-	794,476
743,638	-	743,638
85,496	-	85,496
350,760	-	350,760
(44,988)	-	(44,988)
218,117	-	218,117
-	-	-
65,367	-	65,367
2,831,136	(2,831,136)	-
12,078,478	(2,007,299)	10,071,179
3,065,022	-	3,065,022
5,123,495	-	5,123,495
439,713	-	439,713
98,386	-	98,386
8,726,616	-	8,726,616
622,435	-	622,435
605,107	-	605,107
135,487	-	135,487
1,363,029	-	1,363,029
10,089,645	-	10,089,645
2,106,445	(2,007,299)	99,146
4,506,900	3,623,962	8,130,862
\$ 6,613,345	\$ 1,616,663	\$ 8,230,008

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,004,242	\$ 99,146
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	378,476	360,690
Noncash contribution of property	(18,000)	(11,450)
Noncash contribution of investments	(18,127)	-
Unrealized and realized gains on investments	(78,331)	(199,450)
Loss on disposition of property and equipment	816	-
(Increase) decrease in:		
Accounts receivable	3,192	(221,832)
Pledges receivable - operations	1,341	(184,515)
Inventories	(500,699)	(183,627)
Prepaid expenses	(51,463)	(16,945)
Increase (decrease) in:		
Accounts payable and accrued expenses	(68,852)	240,591
Deferred grant revenue	(38,028)	(127,275)
Capital improvement grant revenue recognized in revenues	(95,479)	(83,351)
Contributions for capital campaign, net of allowance and discount	(79,125)	(25,375)
TOTAL ADJUSTMENTS	<u>(564,279)</u>	<u>(452,539)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>439,963</u>	<u>(353,393)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	165,289	117,898
Purchases of investments	(78,459)	(12,995)
Additions to property and equipment	(222,969)	(119,579)
NET CASH USED IN INVESTING ACTIVITIES	<u>(136,139)</u>	<u>(14,676)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	377,316	553,028
Payments on capital lease obligation	(68,738)	(62,666)
Proceeds from capital grant for the purchase of property and equipment	-	178,830
Proceeds from drawdowns on line of credit	500,000	325,000
Payments on line of credit	(475,000)	(200,000)
Payment of bonds payable	(875,000)	(1,902,026)
NET CASH USED IN FINANCING ACTIVITIES	<u>(541,422)</u>	<u>(1,107,834)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(237,598)</u>	<u>(1,475,903)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>799,104</u>	<u>2,275,007</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 561,506</u>	<u>\$ 799,104</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ 74,102	\$ 52,745
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchases in accounts payable	\$ 197,859	\$ -
Stock contribution received on capital campaign pledge	\$ -	\$ 30,266

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK - MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2005

	PROGRAM SERVICES					SUPPORTING SERVICES			
	EMERGENCY FOOD BOX	FOOD RECOVERY	KIDS CAFE	PROJECT PRESERVE	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	CAPITAL CAMPAIGN	TOTALS
Salaries and contract labor	\$ 231,319	\$ 444,322	\$ 121,426	\$ 256,120	\$ 48,076	\$ 339,079	\$ 175,996	\$ 14,478	\$ 1,630,816
Payroll taxes and benefits	58,935	98,204	30,681	47,164	8,899	86,055	45,664	6,866	382,468
TOTAL SALARIES AND RELATED EXPENSES	290,254	542,526	152,107	303,284	56,975	425,134	221,660	21,344	2,013,284
Occupancy	43,240	92,311	12,136	33,308	6,328	32,826	5,765	-	225,914
Communication expense	8,781	26,103	1,190	2,703	718	3,348	129,017	-	171,860
Food supplies and distribution	84,827	1,123,374	36,924	5,333,437	28,473	-	-	-	6,607,035
Donated food	2,001,550	3,059,490	168,626	716,450	-	-	-	-	5,946,116
Internal food purchases and/or reimbursement	364,545	(462,465)	97,703	-	(22,057)	10,711	11,563	-	-
Product transportation ⁽¹⁾	10,072	98,799	43	430,178	-	50	30	-	539,172
Office and administration - Note 6	6,448	27,278	2,384	13,555	2,165	153,768	40,547	719	246,864
Travel and conferences	1,330	17,060	(230)	11,945	41	31,619	7,859	-	69,624
Professional fees	1,502	-	703	1,729	-	94,907	11,551	27,441	137,833
Other special event costs	-	-	-	-	-	-	122,210	-	122,210
Insurance	16,193	24,728	9,234	12,467	3,001	18,001	14,809	1,576	100,009
TOTAL EXPENSES BEFORE DEPRECIATION	2,828,742	4,549,204	480,820	6,859,056	75,644	770,364	565,011	51,080	16,179,921
Depreciation and amortization	66,451	180,857	6,371	48,998	20,985	42,474	6,371	5,969	378,476
TOTAL EXPENSES	2,895,193	4,730,061	487,191	6,908,054	96,629	812,838	571,382	57,049	16,558,397
Less expenses included with revenues on the statement of activities - direct benefits to donors	-	-	-	-	-	-	(46,951)	-	(46,951)
Less expenses reported with Project Preserve program revenues as direct costs and expenses on the statement of activities	-	-	-	(6,908,054)	-	-	-	-	(6,908,054)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	\$ 2,895,193	\$ 4,730,061	\$ 487,191	\$ -	\$ 96,629	\$ 812,838	\$ 524,431	\$ 57,049	\$ 9,603,392

⁽¹⁾ including \$18,700 donated transportation.

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2004

	PROGRAM SERVICES					SUPPORTING SERVICES			
	EMERGENCY FOOD BOX	FOOD RECOVERY	KIDS CAFE	PROJECT PRESERVE	CULINARY ARTS	MANAGEMENT	FUND	CAPITAL	
						AND GENERAL	RAISING	CAMPAIGN	
Salaries and contract labor	\$ 212,120	\$ 430,587	\$ 74,346	\$ 139,822	\$ 42,376	\$ 248,503	\$ 176,973	\$ 58,588	\$ 1,383,315
Payroll taxes and benefits	59,060	113,491	20,569	24,698	7,597	76,828	44,659	14,912	361,814
TOTAL SALARIES AND RELATED EXPENSES	271,180	544,078	94,915	164,520	49,973	325,331	221,632	73,500	1,745,129
Occupancy	45,539	128,576	7,629	20,810	4,372	31,308	3,844	96	242,174
Communication expense	13,829	26,156	1,285	1,377	129	4,813	192,954	14	240,557
Food supplies and distribution	57,621	1,044,921	58,158	3,122,154	27,124	-	20	-	4,309,998
Donated food	2,279,918	3,505,460	157,533	557,201	-	-	-	-	6,500,112
Internal food purchases and/or reimbursement	300,886	(405,315)	106,823	-	(8,039)	2,670	2,915	60	-
Product transportation ⁽¹⁾	6,234	69,351	-	251,960	-	-	87	-	327,632
Office and administration - Note 6	10,867	22,918	1,316	5,856	494	111,845	31,872	22,568	207,736
Travel and conferences	1,454	4,296	29	9,058	-	27,157	3,756	269	46,019
Professional fees	-	-	-	-	-	55,314	-	29,864	85,178
Other special event costs	-	-	-	-	-	-	174,933	-	174,933
Insurance	13,375	25,533	4,602	4,484	2,360	14,517	10,659	3,147	78,677
TOTAL EXPENSES BEFORE DEPRECIATION	3,000,903	4,965,974	432,290	4,137,420	76,413	572,955	642,672	129,518	13,958,145
Depreciation and amortization	64,119	157,521	7,423	46,782	21,973	49,480	7,423	5,969	360,690
TOTAL EXPENSES	3,065,022	5,123,495	439,713	4,184,202	98,386	622,435	650,095	135,487	14,318,835
Less expenses included with revenues on the statement of activities - direct benefits to donors	-	-	-	-	-	-	(44,988)	-	(44,988)
Less expenses reported with Project Preserve program revenues as direct costs and expenses on the statement of activities	-	-	-	(4,184,202)	-	-	-	-	(4,184,202)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	\$ 3,065,022	\$ 5,123,495	\$ 439,713	\$ -	\$ 98,386	\$ 622,435	\$ 605,107	\$ 135,487	\$ 10,089,645

⁽¹⁾ including \$22,500 donated transportation.

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Second Harvest Food Bank of Middle Tennessee, Inc. (the "Agency") was founded in 1978. Its mission is to feed hungry people and work to solve hunger issues in the community. The Agency is one of 209 certified members of America's Second Harvest, the Nation's Food Bank Network.

Contributions and support

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

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

The Agency also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Agriculture, U.S. Department of Housing and Urban Development and the United Way of Middle Tennessee. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

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

Cash and cash equivalents

Cash and cash equivalents consist principally of checking account balances, as follows as of June 30:

	<u>2005</u>	<u>2004</u>
Operating funds	\$ 141,808	\$ 142,922
Capital campaign funds	419,698	560,703
Unexpended capital grant funds	<u>-</u>	<u>95,479</u>
	<u>\$ 561,506</u>	<u>\$ 799,104</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (3.16% in 2005 and 2004). 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.

The allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends.

Accounts receivable

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

Inventories

Food inventories include donated food, purchased inventory, and undistributed USDA commodities, which are valued at the most recent USDA established market value per pound amount. USDA commodities are recognized as program services expense when distributed. Donated products utilized in the cook/chill operation, which include ingredients, fresh products, and other surplus commodities, are valued at \$0.50 per pound in 2005, which is an estimated average cost for such products. All other donated food received from food drives, food companies, and America's Second Harvest that is utilized in other operations is valued at \$1.49 per pound in 2005 (\$1.50 per pound in 2004), the estimated average market value at the date of gift, based on a study commissioned by the national office. USDA inventory is reported at the lower of cost (first-in, first out method) or fair value, and purchased inventory is reported at average cost.

Investments

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and depreciation

Property and equipment are reported at cost at the date of purchase, at fair market value at the date of gift if the value is readily determinable, or other reasonable basis, as determined by the Board of Directors, if cost is unknown. Depreciation is calculated by the straight-line method, down to the estimated salvage value of the assets, over their estimated useful lives.

Bond issue costs

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

Temporarily restricted net assets

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

	<u>2005</u>	<u>2004</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 137,701	\$ 155,631
Donations for Kids Cafe program	34,791	56,678
Donations for Emergency Food Box program	25,500	-
Donations for Capital Campaign	<u>544,301</u>	<u>1,404,354</u>
	<u>\$ 742,293</u>	<u>\$ 1,616,663</u>

Income taxes

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

Designated unrestricted net assets

The Board of Directors has designated \$300,000 of its unrestricted net assets to be invested, with the income used to support current operations of the Agency. During 2005, the Board designated an additional \$400,000 for the capital campaign. 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, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Volunteer services

A substantial number of unpaid volunteers have contributed their time to the Agency's program and supporting services. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Use of estimates in the preparation of financial statements

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

Program and supporting services - functional allocation

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

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

Emergency Food Box - provides over 1,800,000 pounds of food in emergency staples to families in need through its fourteen satellite centers in Davidson County.

Food Recovery - provides over 2,800,000 pounds of food annually to over 500 not-for-profit agencies including soup kitchens, daycare centers and emergency food programs.

Kids Cafe - operates a weekly feeding program for children at risk of hunger at several area community centers; provided over 157,000 meals each year.

Project Preserve - operates a unique program that cans, labels and distributes product to local agencies and affiliates. Through its canning of soups and stews, the Agency is able to preserve perishable food that would otherwise be wasted. The program also operates as a brokerage service to 128 other food banks throughout the country in order to offer a wider variety of products at a significantly lower price. In addition, the Agency has a cook/chill operation. This is a method of food manufacturing that involves heating food, pumping the product into a form-fill plastic bag that is heat sealed, then super cooled for approximately 45 minutes prior to freezing the product. During 2005, the Agency distributed over 531,000 meals (based on a 12 ounce portion) through this program.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Culinary Arts Center - operates a state-of-the-art food preparation facility located at Second Harvest Food Bank of Middle Tennessee. The purpose of the Center is to educate the public on issues related to nutrition and food preparation. The Center is used for food handling safety classes, food product testing and demonstrations, nutrition training and catering for Second Harvest's partner agencies, supporters and clients.

Supporting services

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

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

Capital campaign - includes cost of solicitations in 2005 and 2004, for the capital campaign specifically related to the acquisition and construction of the new facility.

Allocation of functional expenses

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

Reclassifications

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
Due in less than one year	\$ 695,001	\$ 859,835
Due in one to five years	<u>233,833</u>	<u>437,016</u>
	928,834	1,296,851
Less: Discount to present value	(14,594)	(33,279)
Less: Allowance for uncollectible pledges	<u>(800)</u>	<u>(50,600)</u>
Present value of pledges receivable	<u>\$ 913,440</u>	<u>\$ 1,212,972</u>

Pledges receivable are classified as follows at June 30:

	<u>2005</u>	<u>2004</u>
Operating	\$ 375,484	\$ 376,825
Capital campaign pledges	<u>537,956</u>	<u>836,147</u>
	<u>\$ 913,440</u>	<u>\$ 1,212,972</u>

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
Donated ingredients to be utilized in cook/chill operation	\$ 307,809	\$ -
Other donated food inventory	1,125,302	1,107,033
USDA inventory	38,386	76,414
Cook/chill manufactured inventory	80,062	20,421
Purchased inventory	<u>611,460</u>	<u>458,452</u>
	<u>\$ 2,163,019</u>	<u>\$ 1,662,320</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 4 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2005</u>		<u>2004</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Liquid money market funds	\$ 27,961	\$ 27,961	\$ 27,170	\$ 27,170
Equity securities:				
Bond Fund of America - 10,545 shares (5,775 shares in 2004)	142,466	139,599	76,459	75,466
Euro Pacific Growth Fund - 3,191 shares (3,144 shares in 2004)	114,588	92,823	99,584	91,223
Growth Mutual of America - 10,242 shares (11,328 shares in 2004)	285,142	223,352	290,684	252,771
Small Cap World Fund - 6,173 shares (6,239 shares in 2004)	196,850	159,962	174,879	162,612
Washington Mutual Investments - 10,171 shares (10,737 shares in 2004)	<u>309,912</u>	<u>311,829</u>	<u>315,335</u>	<u>332,462</u>
	<u>\$ 1,076,919</u>	<u>\$ 955,526</u>	<u>\$ 984,111</u>	<u>\$ 941,704</u>
Capital campaign investments				
HCA stock (2,000 shares in 2004; none in 2005)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,180</u>	<u>\$ 82,620</u>

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

	<u>2005</u>	<u>2004</u>
Realized gain (loss) - net	\$ (446)	\$ 5,426
Unrealized gains - net	78,777	194,024
Dividends and interest income	<u>27,619</u>	<u>18,667</u>
	<u>\$ 105,950</u>	<u>\$ 218,117</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	5,622,343	5,445,378
Office and warehouse equipment	1,067,939	923,679
Transportation equipment	368,743	364,343
Cook/Chill equipment	363,462	308,096
Culinary arts center equipment	78,690	78,690
Project Preserve equipment	10,500	-
	<u>8,846,263</u>	<u>8,454,772</u>
Less accumulated depreciation	<u>1,376,228</u>	<u>1,050,242</u>
	<u>\$ 7,470,035</u>	<u>\$ 7,404,530</u>

Property and equipment included fully depreciated items with an original cost of approximately \$430,000 at June 30, 2005 (\$387,000 in 2004.)

NOTE 6 - DEBT OBLIGATIONS

Debt obligations consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
<u>Bonds payable</u>		
\$6,500,000 Industrial Revenue Bonds, Series 2002, issued to finance construction of new facility. Mandatory sinking fund redemption on the bonds amounts to \$325,000 per annum. Bonds mature on June 1, 2022. Interest is payable monthly and is computed on weekly rate periods (ranging from 1.15%-3.14% in 2005), not to exceed a maximum of 10%. Bonds are secured by a letter of credit issued by a local bank.	<u>\$ 2,702,375</u>	<u>\$ 3,577,375</u>

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 6 - DEBT OBLIGATIONS (CONTINUED)

The Agency also has an unsecured \$400,000 operating line of credit with a financial institution. The line is evidenced by a promissory note which bears interest, payable monthly, on the amount borrowed at an interest rate equal to the bank's prime rate. This line of credit was extended on December 7, 2005, and will mature February 8, 2006. There was a \$250,000 balance outstanding under this line at June 30, 2005 (\$225,000 at June 30, 2004).

Total interest expense incurred by the Agency was \$74,102 in 2005 and \$52,745 in 2004. Interest expense is included in office and administration.

NOTE 7 - LEASES

The Agency leases certain office furniture, with a capitalized cost of \$206,211, under a noncancelable agreement accounted for as a capital lease. The Agency exercised its purchase option in November 2005, the end of the lease term, and purchased the furniture for \$1. The obligation matured in monthly installments of \$5,728 through November 2005. Imputed interest on the obligation is not significant. As of June 30, 2005, the lease had an outstanding balance of \$24,305.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Agency sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowable under the Internal Revenue Code. In addition, the plan requires the Agency to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Agency contributions to the plan for the year ended June 30, 2005, amounted to \$89,614 (\$76,637 for 2004).

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist of cash, investments and pledges receivable. Pledges receivable consist of individual and corporate contribution pledges. At June 30, 2005, contributions receivable from two sources amounted to approximately \$514,000, or 56% of total pledges receivable by the Agency. There were no contributions from a single source that exceeded 10% of total contributions.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 9 - CONCENTRATIONS OF CREDIT RISK (CONTINUED)

In October 2004, the Agency was authorized by the Chancery Court of Davidson County, Tennessee, to receive a one-time, \$527,000 distribution out of the net settlement fund from the Sorbates class action lawsuit. This amount has been reported as revenue in the current fiscal year.

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

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

NOTE 10 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2005, the Agency purchased goods and services from companies associated with members of the Board of Directors, as follows: approximately \$8,000 for purchased food products (\$41,000 in 2004); \$2,000 for legal services (\$16,000 in 2004); and \$10,000 for equipment maintenance (\$3,000 in 2004). In addition, a Board member donated legal services valued at \$15,000 during 2005 (\$0- in 2004).

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

In June 2005, the Agency's Board of Directors approved an agreement for the merger of the Agency and Nashville's Table, Inc., a Tennessee not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. Effective July 1, 2005, pursuant to Section 48-61-101, et seq., of the Tennessee Nonprofit Corporation Act, the Agency became the sole member of Nashville's Table, Inc. Nashville's Table, Inc. will retain its separate not-for-profit status, and will be included as part of the Agency's consolidated operations from that date forward.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

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

A schedule of the assets and liabilities of Nashville's Table, Inc. as of July 1, 2005, follows:

ASSETS

Cash	\$ 40,232
Other current assets	15,615
Property and equipment, net	<u>36,876</u>
TOTAL ASSETS	<u>92,723</u>

LIABILITIES

Accrued liabilities	<u>22,227</u>
TOTAL LIABILITIES	<u>22,227</u>

NET ASSETS	<u>\$ 70,496</u>
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