

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2009 AND 2008

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

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

We have audited the accompanying statements of financial position of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, as of June 30, 2009 and 2008, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Food Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of Second Harvest Food Bank of Middle Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

KraftCPAs PLLC

Nashville, Tennessee
December 18, 2009

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Operating assets:		
Cash and cash equivalents	\$ 472,264	\$ 660,927
Accounts receivable	1,095,718	941,305
Pledges receivable, net - Note 2	524,590	467,814
Inventories - Note 3	4,252,618	2,885,160
Prepaid expenses	18,034	102,322
Investments - Notes 4 and 12	1,827,762	2,473,073
Property and equipment - at cost, less accumulated depreciation - Note 5	7,256,872	7,208,197
Other assets	77,097	83,066
Capital campaign assets:		
Cash and cash equivalents	-	20,729
Pledges receivable, net - Note 2	<u>856,028</u>	<u>858,020</u>
 TOTAL ASSETS	 <u>\$ 16,380,983</u>	 <u>\$ 15,700,613</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,365,756	\$ 1,377,678
Deferred grant revenue	532,857	91,149
Line of credit obligation - Note 6	-	470,000
Bonds payable - Note 6	<u>675,000</u>	<u>1,000,000</u>
 TOTAL LIABILITIES	 <u>2,573,613</u>	 <u>2,938,827</u>
COMMITMENTS AND CONTINGENCIES - Notes 5, 7, 10 and 13		
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,884,001	1,271,345
Property and equipment, less related debt	6,581,872	6,208,197
Other board designations - Note 1	300,000	300,000
Undesignated	<u>3,662,436</u>	<u>3,635,180</u>
Total unrestricted	12,428,309	11,414,722
Temporarily restricted - Note 9	<u>1,379,061</u>	<u>1,347,064</u>
 TOTAL NET ASSETS	 <u>13,807,370</u>	 <u>12,761,786</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 16,380,983</u>	 <u>\$ 15,700,613</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUES - PROJECT PRESERVE® PROGRAM			
Agency purchased product	\$ 1,031,456	\$ -	\$ 1,031,456
Sales to out of area network agencies, net of discount	22,970,644	-	22,970,644
Donated food utilized and distributed	407,724	-	407,724
TOTAL REVENUES - PROJECT PRESERVE® PROGRAM	24,409,824	-	24,409,824
DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	23,560,131	-	23,560,131
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	849,693	-	849,693
SUPPORT AND REVENUE			
Donated food	14,491,987	-	14,491,987
Contributions	3,003,344	1,626,504	4,629,848
Federal grant awards	1,074,003	-	1,074,003
State grants	350,000	-	350,000
Shared maintenance	427,922	-	427,922
Culinary arts program	113,377	-	113,377
Special events and activities	503,498	46,056	549,554
Less: direct benefits to donors	(174,361)	-	(174,361)
Investment loss - Note 4	(260,988)	-	(260,988)
Class action lawsuit settlement proceeds - Note 13	-	-	-
Other income	41,151	-	41,151
Net assets released in satisfaction of program restrictions	1,640,563	(1,640,563)	-
TOTAL SUPPORT AND REVENUE	21,210,496	31,997	21,242,493
EXPENSES			
Program services:			
Emergency Food Box	7,070,099	-	7,070,099
Community Food Partners	5,697,725	-	5,697,725
Children's Programs	1,153,946	-	1,153,946
Middle Tennessee's Table	4,824,879	-	4,824,879
Culinary Arts Program	229,878	-	229,878
Total Program Services	18,976,527	-	18,976,527
Supporting services:			
Management and general	876,940	-	876,940
Fund raising	1,183,292	-	1,183,292
Capital campaign	9,843	-	9,843
Total Supporting Services	2,070,075	-	2,070,075
TOTAL EXPENSES	21,046,602	-	21,046,602
CHANGE IN NET ASSETS	1,013,587	31,997	1,045,584
NET ASSETS - BEGINNING OF YEAR	11,414,722	1,347,064	12,761,786
NET ASSETS - END OF YEAR	\$ 12,428,309	\$ 1,379,061	\$ 13,807,370

See accompanying notes to financial statements.

2008		
Unrestricted	Temporarily Restricted	Totals
\$ 896,042	\$ -	\$ 896,042
16,589,733	-	16,589,733
429,504	-	429,504
17,915,279	-	17,915,279
17,297,273	-	17,297,273
618,006	-	618,006
11,036,885	-	11,036,885
2,148,057	1,787,869	3,935,926
573,961	-	573,961
-	-	-
354,498	-	354,498
113,789	-	113,789
627,056	26,017	653,073
(94,227)	-	(94,227)
(55,240)	-	(55,240)
466,257	-	466,257
31,151	-	31,151
2,082,496	(2,082,496)	-
17,284,683	(268,610)	17,016,073
6,269,761	-	6,269,761
4,861,561	-	4,861,561
1,005,701	-	1,005,701
2,500,087	-	2,500,087
230,323	-	230,323
14,867,433	-	14,867,433
856,460	-	856,460
994,808	-	994,808
40,310	-	40,310
1,891,578	-	1,891,578
16,759,011	-	16,759,011
1,143,678	(268,610)	875,068
10,271,044	1,615,674	11,886,718
\$ 11,414,722	\$ 1,347,064	\$ 12,761,786

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,045,584	\$ 875,068
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	466,442	462,248
Noncash contribution of property and equipment	(34,925)	(24,800)
Noncash contribution of investments	(1,011)	(359,820)
Realized and unrealized losses on investments	271,564	105,111
Loss on disposition of property and equipment	2,525	11,491
Capital grant revenues for purchase of property and equipment	-	(55,727)
Contributions for capital campaign, net of allowance	-	(35,650)
(Increase) decrease in:		
Accounts receivable	(154,413)	(90,168)
Pledges receivable - operations	(56,776)	369,175
Inventories	(1,367,458)	(760,060)
Prepaid expenses	84,288	(79,010)
Increase (decrease) in:		
Accounts payable and accrued expenses	(11,922)	364,232
Deferred grant revenue	<u>441,708</u>	<u>64,765</u>
TOTAL ADJUSTMENTS	<u>(359,978)</u>	<u>(28,213)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>685,606</u>	<u>846,855</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	517,497	691,272
Purchases of investments	(142,739)	(1,005,417)
Capital grant collections for purchase of property and equipment	-	64,757
Proceeds from sale of property and equipment	1,500	-
Additions to property and equipment	<u>(478,248)</u>	<u>(223,703)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(101,990)</u>	<u>(473,091)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	1,992	43,630
Borrowings under line of credit	500,000	920,000
Payments on line of credit	(970,000)	(450,000)
Payment of bonds payable	<u>(325,000)</u>	<u>(655,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(793,008)</u>	<u>(141,370)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(209,392)	232,394
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>681,656</u>	<u>449,262</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 472,264</u>	<u>\$ 681,656</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 37,694</u>	<u>\$ 75,005</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, 2009

	PROGRAM SERVICES						SUPPORTING SERVICES			TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	MIDDLE TENNESSEE'S TABLE	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	CAPITAL CAMPAIGN	
Salaries and contract labor	\$ 548,576	\$ 367,459	\$ 635,538	\$ 255,617	\$ 314,933	\$ 105,220	\$ 221,176	\$ 546,484	\$ -	\$ 2,995,003
Payroll taxes and benefits	176,827	63,773	165,978	49,322	80,669	33,921	109,369	151,598	-	831,457
TOTAL SALARIES AND RELATED EXPENSES	725,403	431,232	801,516	304,939	395,602	139,141	330,545	698,082	-	3,826,460
Occupancy	116,204 ⁽¹⁾	73,050	122,223	21,803	28,418	20,882	96,464	10,330	-	489,374
Communication expense	7,320	6,845	15,221	3,518	3,201	1,082	24,511	197,217	-	258,915
Food supplies and distribution	21,462,931	150,996	849,860	33,896	5,105	45,224	10,091	2,620	-	22,560,723
Donated food	470,404	5,784,686	3,476,618	413,385	4,199,450	-	-	-	-	14,344,543
Internal food purchases and/or reimbursement	(781,480)	470,586	-	307,440	-	461	2,993	-	-	-
Product transportation	1,430,350	43,719	203,344	28,858	138,443	7	786	79	-	1,845,586
Office and administration - Note 6	21,499	4,720	21,055	4,771	1,161	1,429	227,190	71,433	239	353,497
Travel and conferences	21,672	718	8,147	1,469	-	-	38,737	3,309	-	74,052
Professional fees	1,416	400	1,849	255	4	-	121,445	14,625	3,469	143,463
Other special event costs	-	-	-	-	-	-	-	330,090 ⁽²⁾	-	330,090
Insurance	12,312	12,989	21,734	6,156	8,711	2,638	15,496	7,747	166	87,949
TOTAL EXPENSES BEFORE DEPRECIATION	23,488,031	6,979,941	5,521,567	1,126,490	4,780,095	210,864	868,258	1,335,532	3,874	44,314,652
Depreciation and amortization	72,100	90,158	176,158	27,456	44,784	19,014	8,682	22,121	5,969	466,442
TOTAL EXPENSES	23,560,131	7,070,099	5,697,725	1,153,946	4,824,879	229,878	876,940	1,357,653	9,843	44,781,094
Less expenses included with revenues on the statement of activities:										
Direct benefits to donors	-	-	-	-	-	-	-	(174,361)	-	(174,361)
Direct costs and expenses of Project Preserve® program	(23,560,131)	-	-	-	-	-	-	-	-	(23,560,131)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 7,070,099	\$ 5,697,725	\$ 1,153,946	\$ 4,824,879	\$ 229,878	\$ 876,940	\$ 1,183,292	\$ 9,843	\$ 21,046,602

⁽¹⁾ Includes donated rent of \$22,661.

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

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008

	PROGRAM SERVICES						SUPPORTING SERVICES			
	PROJECT PRESERVE [®]	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	MIDDLE TENNESSEE'S TABLE	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	CAPITAL CAMPAIGN	TOTALS
Salaries and contract labor	\$ 462,710	\$ 352,629	\$ 488,966	\$ 228,567	\$ 238,544	\$ 90,130	\$ 241,605	\$ 465,778	\$ -	\$ 2,568,929
Payroll taxes and benefits	134,539	57,790	133,182	40,169	59,732	30,982	113,313	118,761	-	688,468
TOTAL SALARIES AND RELATED EXPENSES	597,249	410,419	622,148	268,736	298,276	121,112	354,918	584,539	-	3,257,397
Occupancy	71,377	59,064	99,054	19,102	40,063	17,802	29,927	5,159	-	341,548
Communication expense	6,923	34,504	42,960	29,065	31,528	1,598	33,900	70,636	-	251,114
Food supplies and distribution	15,599,610	74,125	387,880	38,209	121	64,027	26,413	2,382	-	16,192,767
Donated food	512,952	5,000,241	3,348,662	357,293	1,976,090	-	-	-	-	11,195,238
Internal food purchases and/or reimbursement	(781,143)	548,546	300	233,317	480	(4,192)	2,692	-	-	-
Product transportation	1,174,046	30,187	151,328	19,868	89,776	-	219	-	-	1,465,424
Office and administration - Note 6	13,100	6,871	7,588	4,842	12,665	1,491	196,390	81,157	17,298	341,402
Travel and conferences	12,718	93	332	354	4	93	43,037	4,909	-	61,540
Professional fees	4,722	4,728	5,202	4,475	4,457	-	134,211 ⁽¹⁾	6,785	16,120	180,700
Other special event costs	-	-	-	-	-	-	-	308,796 ⁽²⁾	-	308,796
Insurance	12,927	12,927	23,085	6,464	9,234	2,770	15,697	8,310	923	92,337
TOTAL EXPENSES BEFORE DEPRECIATION	17,224,481	6,181,705	4,688,539	981,725	2,462,694	204,701	837,404	1,072,673	34,341	33,688,263
Depreciation and amortization	72,792	88,056	173,022	23,976	37,393	25,622	19,056	16,362	5,969	462,248
TOTAL EXPENSES	17,297,273	6,269,761	4,861,561	1,005,701	2,500,087	230,323	856,460	1,089,035	40,310	34,150,511
Less expenses included with revenues on the statement of activities:										
Direct benefits to donors	-	-	-	-	-	-	-	(94,227)	-	(94,227)
Direct costs and expenses of Project Preserve [®] program	(17,297,273)	-	-	-	-	-	-	-	-	(17,297,273)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 6,269,761	\$ 4,861,561	\$ 1,005,701	\$ 2,500,087	\$ 230,323	\$ 856,460	\$ 994,808	\$ 40,310	\$ 16,759,011

⁽¹⁾Includes donated professional services of \$79,730.

⁽²⁾Includes donated special event expenses of \$60,771.

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

In June 2005, the Food Bank's Board of Directors approved an agreement to create a wholly-owned subsidiary, into which Nashville's Table, Inc. was merged effective July 1, 2005. In December 2007, Nashville's Table, Inc. was legally dissolved. All operating activities relating to Nashville's Table, Inc. are reported as a separate program of the Food Bank. In 2009, the name of the program was changed to Middle Tennessee's Table.

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.

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, 2009 or 2008.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support

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

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

The Food Bank also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Agriculture ("USDA"), U.S. Department of 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 Food Bank reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents

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

	<u>2009</u>	<u>2008</u>
Operating funds	\$ 472,264	\$ 660,927
Capital campaign funds	<u>-</u>	<u>20,729</u>
	<u>\$ 472,264</u>	<u>\$ 681,656</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (not significant at June 30, 2009 or 2008). 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 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 any past due accounts.

Accounts receivable are deemed to be fully collectible by management, and no allowance for bad debts is considered necessary at June 30, 2009 and 2008. Accounts determined to be uncollectible are recorded as bad debt expense in the period of determination.

Inventories

Food inventories include donated food, purchased inventory, and undistributed USDA commodities. Donated products utilized in the cook/chill operation, which include ingredients, fresh products, and other surplus commodities, are valued at \$0.50 per pound in 2009 and 2008, which is an estimated average cost for such products. All other donated food received from food drives, food companies, and Feeding America that is utilized in other operations is valued at \$1.58 per pound in 2009 (\$1.49 per pound in 2008), the estimated average market value at the date of gift, based on a study commissioned by the national office. 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of money market accounts, certificates of deposit, equity funds, taxable bond funds, U.S. Treasury notes and corporate bonds and are carried at their quoted market value on the last business day of the reporting period. Changes in unrealized gains and losses are recognized currently in the Statement of Activities.

Property and depreciation

Property and equipment are reported at cost at the date of purchase, or at estimated fair value at the date of gift to the Food Bank. The Food Bank's policy is to capitalize purchases with a cost of \$1,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows: five to thirty nine years for building and improvements, two to fifteen years for equipment, three to five years for furniture and three to five years for transportation equipment.

Designated unrestricted net assets

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

Fair value measurements

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

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Food Bank has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements (continued)

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

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

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

Investments - Money market funds, certificates of deposit, equity funds, taxable bond funds, U.S. Treasury notes and corporate bonds are classified within Level 1 where quoted market prices are available in an active market. Inputs include investments that have quoted market prices in active markets for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted prices of investments with similar characteristics, and the investments are classified within Level 2.

No changes in the valuation methodologies have been made since the prior year.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Food Bank believes its valuation method is appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Donated services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Food Bank. The Food Bank has recorded contributions for donated legal services based on the estimated fair value of those services.

A substantial number of unpaid volunteers have contributed their time to the Food Bank's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services - functional allocation

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

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

Project Preserve[®] - operates a unique program that distributes purchased product to local agencies and other Feeding America affiliates. In addition, the program has a cook/chill operation, which is a method of food manufacturing that involves heating food, pumping the product into form-fill plastic bags that are heat sealed, then super cooled for approximately 45 minutes prior to freezing the product. It has utilized large amounts of donated ingredients that would have otherwise been wasted.

Emergency Food Box - provided over 2,405,000 pounds of food during 2009 (2,057,000 pounds in 2008) in emergency staples to families in need through its fifteen satellite centers in Davidson County. Included in the donated food distributed total is over 738,000 pounds of food distributed to other non-partner not-for-profit agencies (717,000 pounds in 2008).

Also included as part of the Emergency Food Box program is the Mobile Pantry program. Mobile Pantry travels to the forty-six county service area and delivers large boxes of food and supplies that are distributed to people in need. During 2009, over 1,718,000 pounds of food (1,118,000 pounds of food in 2008) were distributed through this program.

Community Food Partners - provided over 6,585,000 pounds of food during 2009 (5,955,000 pounds in 2008) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs.

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 268,000 meals during 2009 (319,000 meals in 2008). 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 2009, the Food Bank distributed more than 71,100 backpacks to hungry children (37,800 backpacks in 2008).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program services (continued)

Middle Tennessee's Table (previously, Nashville's Table) - collects perishable food from more than 170 food donors, such as restaurants, grocery stores, cafeterias, retailers, wholesalers, bakeries, and caterers, which is then distributed to more than 140 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. In March 2008, the Food Bank began the Grocery Rescue program, which picks up excess perishable products from participating grocery stores and delivers to agencies in the service area. These products include meats, produce, dairy, bread, bakery items and dry products. During 2009, the Food Bank distributed over 2,657,800 pounds of food (equivalent to more than two million meals) under this program (1,326,000 pounds equivalent to more than one million meals in 2008).

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

Supporting services

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

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

Capital campaign - includes the cost of solicitations in 2009 and 2008, for the capital campaign specifically related to the acquisition and construction of the Food Bank's facility. The capital campaign was substantially completed in 2007.

Allocation of functional expenses

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

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

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.

Events occurring after reporting date

The Food Bank has evaluated events and transactions that occurred between June 30, 2009 and December 18, 2009, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Food Bank has elected this deferral and, accordingly, will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. Prior to adopting FIN 48, the Food Bank will continue to evaluate uncertain tax positions and related income tax contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

The Food Bank is currently evaluating the impact, if any, of the adoption of this pronouncement on the financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Due in less than one year	\$ 1,387,618	\$ 1,307,834
Due in one to five years	<u>-</u>	<u>25,000</u>
	1,387,618	1,332,834
Less: Allowance for uncollectible pledges	<u>(7,000)</u>	<u>(7,000)</u>
Present value of pledges receivable	<u>\$ 1,380,618</u>	<u>\$ 1,325,834</u>

Pledges receivable are classified as follows at June 30:

	<u>2009</u>	<u>2008</u>
Operating	\$ 524,590	\$ 467,814
Capital campaign pledges	<u>856,028</u>	<u>858,020</u>
	<u>\$ 1,380,618</u>	<u>\$ 1,325,834</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Donated ingredients to be utilized in cook/chill operation	\$ 128,302	\$ 187,237
Other donated food inventory	1,755,699	1,084,108
USDA inventory	527,128	63,767
Cook/chill manufactured inventory	82,871	63,311
Purchased inventory	<u>1,758,618</u>	<u>1,486,737</u>
	<u>\$ 4,252,618</u>	<u>\$ 2,885,160</u>

NOTE 4 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2009</u>		<u>2008</u>	
	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>
Liquid money market funds	\$ 153,547	\$ 153,547	\$ 847,879	\$ 847,879
Certificates of deposit	289,507	289,507	192,121	192,121
Equity funds	1,103,239	1,219,734	1,171,341	993,011
Taxable bond funds	147,426	172,089	154,895	162,970
United States Treasury notes	-	-	70,430	70,800
Corporate bonds	<u>134,043</u>	<u>100,000</u>	<u>36,407</u>	<u>36,207</u>
	<u>\$ 1,827,762</u>	<u>\$ 1,934,877</u>	<u>\$ 2,473,073</u>	<u>\$ 2,302,988</u>

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

	<u>2009</u>	<u>2008</u>
Realized and unrealized losses - net	\$ (271,564)	\$ (105,111)
Dividends and interest income	<u>10,576</u>	<u>49,871</u>
	<u>\$ (260,988)</u>	<u>\$ (55,240)</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	5,739,334	5,763,903
Office and warehouse furniture and equipment	1,490,392	1,308,889
Transportation equipment	1,119,778	990,773
Cook/chill equipment	507,092	492,996
Culinary arts center equipment	<u>81,848</u>	<u>81,848</u>
	10,273,030	9,972,995
Less accumulated depreciation	<u>3,016,158</u>	<u>2,764,798</u>
	<u>\$ 7,256,872</u>	<u>\$ 7,208,197</u>

Property and equipment included fully depreciated items with original costs totaling approximately \$1,241,000 at June 30, 2009 (\$1,332,000 at June 30, 2008).

Subsequent to year end, the Food Bank entered into a construction contract to expand its existing office space and parking lot. This project is expected to be completed by the end of 2009, at an estimated cost of \$845,000.

NOTE 6 - DEBT

Debt consisted of the following at June 30:

	<u>2009</u>	<u>2008</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 1.00% - 8.03% in 2009; 1.31% - 4.02% in 2008), not to exceed a maximum of 10%. Bonds are secured by a letter of credit issued by a local bank.	<u>\$ 675,000</u>	<u>\$ 1,000,000</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 6 - DEBT (CONTINUED)

The Food Bank has made additional principal payments on the bonds at various times from the collection of capital campaign contributions.

The Food Bank also has an unsecured \$800,000 operating line of credit with a financial institution. The line is evidenced by a promissory note which bears interest, payable monthly, on the amount borrowed at an interest rate equal to the bank's prime rate (3.25% at June 30, 2009). This line of credit matures on February 7, 2010. There was no outstanding balance under the line at June 30, 2009 (\$470,000 at June 30, 2008).

Total interest expense incurred by the Food Bank was \$37,694 in 2009 and \$75,005 in 2008. Interest expense is included in office and administration.

On September 3, 2009, the Food Bank entered into a \$650,000 construction loan agreement with a financial institution to finance the building renovations. The loan bears interest at a variable rate of LIBOR plus 3% (not to fall below 3.75%) and matures January 3, 2015. The agreement requires monthly payments of interest only for the first four months, followed by 59 consecutive monthly principal payments of \$5,417, plus accrued interest beginning on February 3, 2010. The remaining principal balance is due January 3, 2015.

NOTE 7 - LEASES

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

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Food Bank sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowable under the IRC. In addition, the plan requires the Food Bank to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Food Bank contributions to the plan for the year ended June 30, 2009, amounted to \$146,629 (\$124,005 for 2008).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2009</u>	<u>2008</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 337,785	\$ 271,435
Other contributions or pledges for following period not restricted to specific programs	49,865	1,000
Donations for Children's programs	27,029	119,051
Donations for Emergency Food Box program	81,204	41,070
Donations for Middle Tennessee's Table	27,150	29,650
Donations for Culinary Arts Center	-	7,350
Donations for Capital Campaign	<u>856,028</u>	<u>877,508</u>
	<u>\$ 1,379,061</u>	<u>\$ 1,347,064</u>

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Food Bank to concentrations of credit risk consist of cash, investments, and pledges receivable. Pledges receivable consist of individual and corporate contribution pledges. At June 30, 2009, contributions receivable from one source amounted to approximately \$850,000, or 62% of total pledges receivable (\$850,000 from one source, or 64% of total pledges receivable in 2008).

The Food Bank maintains its cash balances in bank deposit accounts which, at times, may exceed Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 per depositor to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. At June 30, 2009, cash balances exceeded FDIC coverage by approximately \$194,000.

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 11 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2009, the Food Bank purchased goods and services from companies associated with members of the Board of Directors, as follows: \$29,354 for third-party logistical support (none in 2008), \$7,667 for other professional services (\$25,429 in 2008) and \$17,577 for equipment and maintenance (\$31,807 in 2008). In 2008, the Food Bank purchased \$925 for food products (none in 2009), from a company associated with a board member. One board member is employed by a financial institution used by the Food Bank.

Two Board members donated legal services valued at approximately \$16,000 during 2009 (\$8,000 from one Board member in 2008). Additionally, the donated space used by the Project Preserve® program is provided by a company that employs a board member.

NOTE 12 - FAIR VALUE MEASUREMENTS

The following table sets forth the Food Bank's major categories of assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2009:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments	<u>\$ 1,827,762</u>	<u>\$ 1,538,255</u>	<u>\$ 289,507</u>	<u>\$ -</u>

NOTE 13 - CLASS ACTION LAWSUIT SETTLEMENT

During 2008, Feeding America was named an indirect beneficiary of a \$25.7 million class action lawsuit brought on behalf of indirect purchasers of MSG, nucleotides or products containing MSG or nucleotides. Feeding America is responsible for administering these funds to benefit certain states included in the lawsuit. The Food Bank was allocated a one-time \$466,257 distribution from this settlement, based on certain criteria. This amount was reported as revenue in 2008.

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

	FEDERAL CFDA NUMBER		GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2008	7/1/08 - 6/30/09		(ACCRUED) DEFERRED REVENUE 6/30/09
							RECEIPTS	EXPENDITURES	
EXPENDITURES OF FEDERAL AWARDS									
U. S. DEPARTMENT OF AGRICULTURE									
Passed Through Tennessee Department of Human Services									
Summer Food Service Program (SFSP)	10.559		DA-0821473	05/01/08 - 09/30/08	*	\$ (14,505)	\$ 32,668	\$ 18,163	\$ -
Summer Food Service Program (SFSP)	10.559		30082	05/01/09 - 09/30/09	*	-	12,987	19,482	(6,495)
Passed Through Tennessee Department of Agriculture									
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GA-08-22718-00	10/1/07 - 9/30/08	\$ 56,902	(3,495)	19,902	16,407	-
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-09-26395-00	10/1/08 - 9/30/09	\$ 56,902	-	38,810	56,902	(18,092)
Emergency Food Assistance Program - Administrative Costs	10.568 - ARRA	(1)	GR-09-26395-00	10/1/08 - 9/30/09	\$ 205,122	-	-	36,295	(36,295)
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-08-22718-00 and GR-09-26395-00	10/1/07 - 9/30/08 and 10/1/08 - 9/30/09	*	63,767	1,308,067	844,706	527,128
TOTAL U. S. DEPT OF AGRICULTURE						45,767	1,412,434	991,955	466,246
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
Community Development Block Grants/ Brownfields Economic Development Initiative	14.246		B-06-SP-TN 0964	11/30/05 - 10/29/10	\$ 148,500	-	1,500	1,500	-
TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						-	1,500	1,500	-
DEPARTMENT OF HOMELAND SECURITY									
Passed Through United Way of Middle Tennessee.									
Emergency Management Food and Shelter Program	97.024		26-7652-00	10/1/07 - 9/30/08	\$ 54,506	27,382	-	27,382	-
Emergency Management Food and Shelter Program	97.024		27-7652-00	1/1/09 - 10/31/09	\$ 55,000	-	27,500	27,500	-
Emergency Management Food and Shelter Program	97.024		27-7818-00	10/1/08 - 10/31/09	\$ 51,332	-	25,666	25,666	-
Emergency Management Food and Shelter Program - ARRA	97.114		AR-7652-00	4/1/09 - 10/31/09	\$ 11,458	-	5,729	-	5,729
TOTAL DEPARTMENT OF HOMELAND SECURITY						27,382	58,895	80,548	5,729
TOTAL EXPENDITURES OF FEDERAL AWARDS						\$ 73,149	\$ 1,472,829	\$ 1,074,003	\$ 471,975

(Continued)

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2008	7/1/08 - 6/30/09		(ACCRUED) DEFERRED REVENUE 6/30/09
						RECEIPTS	EXPENDITURES	
EXPENDITURES OF STATE AWARDS								
STATE OF TENNESSEE								
Department of Human Services	N/A	GR011508	9/1/08 - 6/30/09	\$ 350,000	\$ -	\$ 350,000	\$ 350,000	\$ -
TOTAL EXPENDITURES OF STATE AWARDS					\$ -	\$ 350,000	\$ 350,000	\$ -

* Not specified.
(1) Denotes a major program

Total Expenditures by CFDA Number:

10.559	\$ 37,645
10.568 & 10.569	954,310
14.246	1,500
97.024	80,548
	<u>\$ 1,074,003</u>

BASIS OF PRESENTATION

This schedule includes the federal and state grant activity of Second Harvest Food Bank of Middle Tennessee, Inc., and is presented on the accrual basis of accounting. The information in 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 AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Second Harvest Food Bank of Middle Tennessee, Inc. in a separate letter dated December 18, 2009.

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

A handwritten signature in black ink, appearing to read "Y. R. CPAS PHC". The signature is stylized with a large, looped initial "Y" and a trailing flourish.

Nashville, Tennessee
December 18, 2009



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Second Harvest Food Bank of Middle Tennessee, Inc.'s major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Second Harvest Food Bank of Middle Tennessee, Inc.'s management. Our responsibility is to express an opinion on Second Harvest Food Bank of Middle Tennessee, Inc.'s compliance based on our audit.

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

In our opinion, Second Harvest Food Bank of Middle Tennessee, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Second Harvest Food Bank of Middle Tennessee, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Second Harvest Food Bank of Middle Tennessee, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

A handwritten signature in black ink that reads "Yragi CPAs PLLC". The signature is stylized with a large, sweeping initial 'Y'.

Nashville, Tennessee
December 18, 2009

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:

Unqualified

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:

Unqualified

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