

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011 AND 2010

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 "Food Bank"), a Tennessee not-for-profit corporation, as of June 30, 2011 and 2010, 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. 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, 2011 and 2010, 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  
February 3, 2012

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Operating assets:		
Cash	\$ 465,098	\$ 540,945
Accounts receivable	1,643,989	1,535,315
Grants receivable	68,628	7,886
Pledges receivable, net	306,572	653,270
Inventories	6,045,658	4,391,929
Prepaid expenses	12,848	18,258
Investments	2,418,711	2,016,076
Property and equipment, net	7,875,890	8,023,052
Other assets	-	71,129
Capital campaign assets:		
Pledges receivable, net	<u>-</u>	<u>790,326</u>
TOTAL ASSETS	<u>\$ 18,837,394</u>	<u>\$ 18,048,186</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,808,316	\$ 1,475,643
Deferred grant revenue	264,506	744,933
Line of credit	1,000,000	-
Notes payable	457,917	716,685
Bonds payable	<u>-</u>	<u>350,000</u>
TOTAL LIABILITIES	<u>5,530,739</u>	<u>3,287,261</u>
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,780,730	1,502,962
Property and equipment, less related debt	7,417,973	6,956,367
Board designated	300,000	300,000
Undesignated	<u>3,309,020</u>	<u>4,112,766</u>
Total unrestricted	12,807,723	12,872,095
Temporarily restricted	<u>498,932</u>	<u>1,888,830</u>
TOTAL NET ASSETS	<u>13,306,655</u>	<u>14,760,925</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,837,394</u>	<u>\$ 18,048,186</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011		
	Unrestricted	Temporarily Restricted	Totals
REVENUES - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	\$ 26,382,184	\$ -	\$ 26,382,184
Sales to local agencies	1,356,295	-	1,356,295
Donated food and services	204,461	-	204,461
TOTAL REVENUES - PROJECT PRESERVE® PROGRAM	27,942,940	-	27,942,940
DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	26,862,042	-	26,862,042
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	1,080,898	-	1,080,898
SUPPORT AND REVENUE			
Donated food	15,801,333	-	15,801,333
Contributions	3,369,038	1,984,903	5,353,941
Federal and state grant awards	2,724,970	-	2,724,970
Shared maintenance fees	555,928	-	555,928
Agency product sales	-	-	-
Culinary arts program	166,076	-	166,076
Special events and activities	573,959	-	573,959
Less: direct benefits to donors	(60,535)	-	(60,535)
Investment income	403,791	-	403,791
Loss of food inventory as a result of flood	-	-	-
Other income	244,197	-	244,197
Reduction of temporarily restricted pledge receivable due to change of intent to conditional pledge	-	(786,184)	(786,184)
Net assets released in satisfaction of program restrictions	2,588,617	(2,588,617)	-
TOTAL SUPPORT AND REVENUE	26,367,374	(1,389,898)	24,977,476
EXPENSES			
Program services:			
Emergency Food Box	3,961,261	-	3,961,261
Community Food Partners	18,190,381	-	18,190,381
Children's Programs	2,754,040	-	2,754,040
Culinary Arts Program	311,207	-	311,207
Total Program Services	25,216,889	-	25,216,889
Supporting services:			
Management and general	842,564	-	842,564
Fund raising	1,453,191	-	1,453,191
Total Supporting Services	2,295,755	-	2,295,755
TOTAL EXPENSES	27,512,644	-	27,512,644
CHANGE IN NET ASSETS	(64,372)	(1,389,898)	(1,454,270)
NET ASSETS - BEGINNING OF YEAR	12,872,095	1,888,830	14,760,925
NET ASSETS - END OF YEAR	\$ 12,807,723	\$ 498,932	\$ 13,306,655

See accompanying notes to financial statements.

2010		
Unrestricted	Temporarily Restricted	Totals
\$ 25,866,872	\$ -	\$ 25,866,872
-	-	-
192,478	-	192,478
26,059,350	-	26,059,350
25,055,453	-	25,055,453
1,003,897	-	1,003,897
12,662,231	-	12,662,231
2,892,934	3,108,560	6,001,494
3,383,907	-	3,383,907
589,005	-	589,005
1,287,826	-	1,287,826
116,621	-	116,621
396,172	-	396,172
(73,362)	-	(73,362)
188,389	-	188,389
(197,000)	-	(197,000)
55,031	-	55,031
-	-	-
2,598,791	(2,598,791)	-
23,900,545	509,769	24,410,314
3,939,204	-	3,939,204
16,247,698	-	16,247,698
1,703,993	-	1,703,993
320,582	-	320,582
22,211,477	-	22,211,477
949,948	-	949,948
1,299,231	-	1,299,231
2,249,179	-	2,249,179
24,460,656	-	24,460,656
443,786	509,769	953,555
12,428,309	1,379,061	13,807,370
<u>\$ 12,872,095</u>	<u>\$ 1,888,830</u>	<u>\$ 14,760,925</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,454,270)	\$ 953,555
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	647,997	534,123
Noncash contribution of property and equipment	(43,172)	(15,400)
Noncash contribution of investments	-	(233)
Realized and unrealized gains on investments	(367,988)	(169,792)
(Gain) loss on disposition of property and equipment	-	(92)
Discount recorded on pledges receivable	-	59,346
Reduction of capital campaign pledge receivable due to change to conditional pledge	786,184	-
(Increase) decrease in:		
Accounts receivable	(108,674)	(500,479)
Grants receivable	(60,742)	52,996
Pledges receivable - operations	346,698	(128,680)
Inventories	(1,653,729)	(139,311)
Prepaid expenses	5,410	(224)
Increase (decrease) in:		
Accounts payable and accrued expenses	2,332,673	109,887
Deferred grant revenue	(480,427)	212,076
TOTAL ADJUSTMENTS	<u>1,404,230</u>	<u>14,217</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(50,040)</u>	<u>967,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	65,779	99,547
Purchases of investments	(100,426)	(117,836)
Proceeds from sale of property and equipment	-	500
Additions to property and equipment	(386,534)	(1,279,342)
NET CASH USED IN INVESTING ACTIVITIES	<u>(421,181)</u>	<u>(1,297,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	4,142	6,356
Net borrowings under line of credit	1,000,000	-
Payment of bonds payable	(350,000)	(325,000)
Proceeds from notes payable	-	843,768
Payments on notes payable	(258,768)	(127,083)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>395,374</u>	<u>398,041</u>
NET INCREASE (DECREASE) IN CASH	<u>(75,847)</u>	<u>68,682</u>
CASH - BEGINNING OF YEAR	<u>540,945</u>	<u>472,263</u>
CASH - END OF YEAR	<u>\$ 465,098</u>	<u>\$ 540,945</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 36,720</u>	<u>\$ 32,367</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, 2011

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	
Salaries	\$ 583,997	\$ 406,898	\$ 1,301,596	\$ 293,059	\$ 117,721	\$ 166,747	\$ 613,225	\$ 3,483,243
Contract labor	195,857	16,582	44,132	6,256	2,869	58,053	15,547	339,296
Payroll taxes and benefits	158,105	110,159	352,380	79,340	31,871	45,143	166,018	943,016
 TOTAL SALARIES AND RELATED EXPENSES	 937,959	 533,639	 1,698,108	 378,655	 152,461	 269,943	 794,790	 4,765,555
Food supplies and distribution	25,745,862	69,909	2,305,005	41,716	63,791	21,469	5,227	28,252,979
Donated food	131,383	2,426,040	11,896,803	1,228,913	-	-	-	15,683,139
Internal food purchases and/or reimbursement	(1,968,930)	475,864	732,693	759,033	1,046	294	-	-
Product transportation	1,460,598	141,231	487,592	75,148	22,911	59,798	15	2,247,293
Credits provided to agencies for purchased product	-	1,500	205,716	93,825	-	-	-	301,041
Capacity-building grants to food partner agencies	-	-	87,211	-	-	-	-	87,211
Office and administration	40,631	90,936	113,863	76,297	3,935	170,363	77,930	573,955
Occupancy	333,924	72,017	262,443	38,106	28,808	31,465	51,779	818,542
Communication expense	29,208	9,888	29,035	9,620	4,877	26,575	246,123	355,326
Travel and conferences	23,893	3,613	18,202	23	1,010	45,797	9,973	102,511
National network dues	-	-	-	-	-	14,538	-	14,538
Professional fees	22,568	8,035	18,284	13,635	6,927	169,877	17,350	256,676
Other special event costs	-	-	-	-	-	-	203,343	203,343
Insurance	20,470	12,282	47,798	7,651	4,174	13,405	19,337	125,117
 TOTAL EXPENSES BEFORE DEPRECIATION	 26,777,566	 3,844,954	 17,902,753	 2,722,622	 289,940	 823,524	 1,425,867	 53,787,226
Depreciation and amortization	84,476	116,307	287,628	31,418	21,267	19,040	87,859	647,995
 TOTAL EXPENSES	 26,862,042	 3,961,261	 18,190,381	 2,754,040	 311,207	 842,564	 1,513,726	 54,435,221
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(60,535)	(60,535)
Direct costs and expenses of Project Preserve® program	(26,862,042)	-	-	-	-	-	-	(26,862,042)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 3,961,261	 \$ 18,190,381	 \$ 2,754,040	 \$ 311,207	 \$ 842,564	 \$ 1,453,191	 \$ 27,512,644

See accompanying notes to financial statements.



SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 589,023	\$ 272,727	\$ 1,242,015	\$ 247,593	\$ 162,931	\$ 176,462	\$ 623,582	\$ 3,314,333
Contract labor	86,159	117,068	99,688	39,403	2,258	4,837	6,223	355,636
Payroll taxes and benefits	160,769	51,241	347,002	45,470	46,747	126,843	141,930	920,002
 TOTAL SALARIES AND RELATED EXPENSES	 835,951	 441,036	 1,688,705	 332,466	 211,936	 308,142	 771,735	 4,589,971
Food supplies and distribution	25,067,168	89,731	2,005,506	35,927	50,699	29,025	3,736	27,281,792
Donated food	173,603	2,604,949	9,421,717	843,000	-	-	-	13,043,269
Internal food purchases and/or reimbursement	(2,719,790)	391,596	1,995,766	324,097	1,552	6,779	-	-
Product transportation	1,287,527	69,767	372,119	45,604	67	393	71	1,775,548
Credits provided to agencies for purchased product	-	-	233,601	49,110	-	-	-	282,711
Capacity-building grants to food partner agencies	-	99,286	-	-	-	-	-	99,286
Office and administration	16,853	4,854	12,607	3,341	3,816	251,936	89,099	382,506
Occupancy	260,429	103,549	186,125	30,149	25,512	64,051	9,869	679,684
Communication expense	18,535	9,236	32,162	2,752	2,508	33,975	212,058	311,226
Travel and conferences	16,774	150	1,973	-	-	30,738	4,022	53,657
National network dues	-	-	-	-	-	18,544	-	18,544
Professional fees	327	72	1,675	13	-	166,644	4,200	172,931
Other special event costs	-	-	-	-	-	-	244,014	244,014
Insurance	17,566	16,709	41,773	8,355	3,581	21,483	10,742	120,209
 TOTAL EXPENSES BEFORE DEPRECIATION	 24,974,943	 3,830,935	 15,993,729	 1,674,814	 299,671	 931,710	 1,349,546	 49,055,348
Depreciation and amortization	80,510	108,269	253,969	29,179	20,911	18,238	23,047	534,123
 TOTAL EXPENSES	 25,055,453	 3,939,204	 16,247,698	 1,703,993	 320,582	 949,948	 1,372,593	 49,589,471
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(73,362)	(73,362)
Direct costs and expenses of Project Preserve® program	(25,055,453)	-	-	-	-	-	-	(25,055,453)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 3,939,204	 \$ 16,247,698	 \$ 1,703,993	 \$ 320,582	 \$ 949,948	 \$ 1,299,231	 \$ 24,460,656

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 - GENERAL

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Food Bank had no permanently restricted net assets as of June 30, 2011 or 2010.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

The Food Bank also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Agriculture ("USDA"), U.S. Department of Health and Human Services and the United Way of Middle Tennessee. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

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

Cash

Cash consists principally of checking account balances.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (not applicable at June 30, 2011; 1.79% at June 30, 2010). 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

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

Accounts receivable are deemed to be fully collectible by management, and no allowance for doubtful accounts is considered necessary at June 30, 2011 and 2010.

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 2011 and 2010, which is an estimated average purchased cost for similar products. All other donated food received from food drives, food companies, and Feeding America<sup>®</sup> that is utilized in other operations is valued at \$1.66 per pound in 2011 (\$1.60 per pound in 2010), the estimated average market value at the date of gift, based on a study commissioned by Feeding America<sup>®</sup>. Purchased inventory is reported at average cost. USDA inventory is valued at the most recent USDA established market value per pound amount, and is recognized as program services expense when distributed.

Investments

Investments consist of money market accounts, certificates of deposit, equity funds, taxable bond funds and corporate bonds. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equity funds, taxable bond funds and corporate bonds are carried at their quoted market value on the last business day of the reporting period. Changes in unrealized gains and losses are recognized currently in the Statement of Activities.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Depreciation

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

Designated Unrestricted Net Assets

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

Fair Value Measurements

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

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

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

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

*Donated inventory* - The value of donated food and ingredients is based on poundage times a standard rate. The rate for ingredients is determined by management based on the purchase price of similar products, discounted for age and/or taste and the rate for donated food is updated annually based on a study commissioned by Feeding America®, both of which are classified as Level 3. The inputs used in the valuation include twenty-nine product types calculating a weighted average value for the year based on actual donated pounds by type on a national level.

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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.

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<sup>®</sup> - 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.

Another component of Project Preserve is custom product assembly for national distribution. During 2011, this production assembled approximately 1,060,900 individual backpacks (508,900 backpacks in 2010). Additionally, 49,200 Emergency Food Boxes were assembled and shipped to Feeding America affiliates in 2011 (24,300 boxes in 2010).

Emergency Food Box - provided over 2,342,000 pounds of food during 2011 (2,560,000 pounds in 2010) in emergency staples to families in need through its seventeen satellite centers in Davidson County.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation (Continued)

Community Food Partners - provided over 9,400,000 pounds of food during 2011 (9,940,000 pounds in 2010) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs. The Middle Tennessee's Table program collects perishable and non-perishable food from more than 189 food donors, such as grocery stores, retailers, wholesalers and bakeries, which is then distributed to more than 450 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. In March 2008, the Food Bank began the Grocery Rescue program, which picks up excess perishable products from participating grocery stores and distributes to agencies in the service area. These products include meats, produce, dairy, bread, bakery items and dry products. During 2011, the Food Bank distributed over 2,700,000 pounds of food (equivalent to more than 2 million meals) under this program. (The Food Bank distributed 2,073,000 pounds equivalent to more than 1.5 million meals in 2010).

Also included in Community Food Partners is the Mobile Pantry program. Mobile Pantry travels to the forty-six county service area and delivers large boxes of perishable and non-perishable food and supplies that are distributed to people in need. During 2011, over 3,000,000 pounds of food (3,098,000 pounds of food in 2010) were distributed through this program.

The Food Bank provided disaster relief support in 2011 and 2010 in response to the May 2010 flooding that occurred in Middle Tennessee. The costs of providing the disaster relief support was not classified as a separate program service but is reported within both the Emergency Food Box and Community Food Partners program services functional expenses. Disaster relief support operated 77 mobile pantries in all federally declared disaster counties. In addition, over 1.75 million pounds of food was distributed through the disaster relief support during 2011 (over 829,000 pounds of food in 2010).

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 150,000 meals during 2011 (176,000 meals in 2010). 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 2011, the Food Bank distributed nearly 205,000 backpacks to hungry children (137,000 backpacks in 2010).

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation (Continued)

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.

Shipping and Handling

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

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.

Income Taxes

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

The Food Bank files a U.S. Federal Form 990 for organizations exempt from income tax. Returns for years prior to fiscal year end 2008 are now closed and no longer open to further examination by the Internal Revenue Service.



SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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

Use of Estimates in the Preparation of Financial Statements

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

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2011 and February 3, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Due in less than one year	\$ 325,872	\$ 659,942
Due in one to five years	<u>-</u>	<u>850,000</u>
	325,872	1,509,942
Less: Present value discount	-	(63,816)
Less: Allowance for uncollectible pledges	<u>(19,300)</u>	<u>(2,530)</u>
Present value of pledges receivable	<u>\$ 306,572</u>	<u>\$ 1,443,596</u>

Pledges receivable are classified as follows at June 30:

	<u>2011</u>	<u>2010</u>
Operating	\$ 306,572	\$ 653,270
Capital campaign pledges	<u>-</u>	<u>790,326</u>
	<u>\$ 306,572</u>	<u>\$ 1,443,596</u>

During 2011, it was determined that the donor's intent on their outstanding capital campaign pledge had changed from an unconditional pledge to a conditional pledge, and no longer meets the criteria for recognition in the financial statements. As such, the present value of this pledge balance in the amount of \$786,184 has been recorded as a reduction of temporarily restricted net assets at June 30, 2011 in the Statement of Financial Position. Once the donor's condition is met, the original pledge amount will be recorded as contribution revenue.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Donated ingredients to be utilized in cook/chill operation	\$ 149,119	\$ 93,234
Other donated food inventory	1,631,611	1,409,728
USDA inventory	240,355	629,580
Cook/chill manufactured inventory	132,409	121,558
Purchased inventory	<u>3,892,164</u>	<u>2,137,829</u>
	<u>\$ 6,045,658</u>	<u>\$ 4,391,929</u>

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

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Liquid money market funds	\$ 264,091	\$ 256,538
Certificates of deposit	308,131	295,146
Equity funds	1,638,587	1,263,353
Taxable bond funds	174,482	166,543
Corporate bonds	<u>33,420</u>	<u>34,496</u>
	<u>\$ 2,418,711</u>	<u>\$ 2,016,076</u>

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

	<u>2011</u>	<u>2010</u>
Realized and unrealized gains - net	\$ 367,988	\$ 169,792
Dividends and interest income	<u>35,803</u>	<u>18,597</u>
	<u>\$ 403,791</u>	<u>\$ 188,389</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 6 - FAIR VALUE MEASUREMENTS

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

	2011			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity funds:				
Growth	\$ 743,386	\$ 743,386	\$ -	\$ -
Large Value	491,225	491,225	-	-
Small Cap	<u>403,976</u>	<u>403,976</u>	<u>-</u>	<u>-</u>
Total equity funds	1,638,587	1,638,587	-	-
Taxable bond funds:				
Intermediate term	174,482	174,482	-	-
Corporate bonds:				
Energy	<u>33,420</u>	<u>33,420</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,846,489	1,846,489	-	-
Donated inventory	<u>1,780,730</u>	<u>-</u>	<u>-</u>	<u>1,780,730</u>
Total	<u>\$ 3,627,219</u>	<u>\$ 1,846,489</u>	<u>\$ -</u>	<u>\$ 1,780,730</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2010			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity funds:				
Growth	\$ 580,082	\$ 580,082	\$ -	\$ -
Large Value	354,709	354,709	-	-
Small Cap	<u>328,562</u>	<u>328,562</u>	-	-
Total equity funds	1,263,353	1,263,353	-	-
Taxable bond funds:				
Intermediate term	166,543	166,543	-	-
Corporate bonds:				
Energy	<u>34,496</u>	<u>34,496</u>	-	-
Total investments at fair value	1,464,392	1,464,392	-	-
Donated inventory	<u>1,502,962</u>	<u>-</u>	<u>-</u>	<u>1,502,962</u>
Total	<u>\$ 2,967,354</u>	<u>\$ 1,464,392</u>	<u>\$ -</u>	<u>\$ 1,502,962</u>

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

	<u>Donated Inventory</u>	
	<u>2011</u>	<u>2010</u>
Beginning of year	\$ 1,502,962	\$ 1,884,001
Donated food received	15,960,907	12,662,230
Donated food distributed	<u>(15,683,139)</u>	<u>(13,043,269)</u>
End of year	<u>\$ 1,780,730</u>	<u>\$ 1,502,962</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	6,897,483	6,628,681
Office and warehouse furniture and equipment	1,523,894	1,484,007
Transportation equipment	1,452,846	1,331,829
Cook/chill equipment	563,532	563,532
Culinary arts center equipment	<u>81,847</u>	<u>81,847</u>
	11,854,188	11,424,482
Less accumulated depreciation	<u>3,978,298</u>	<u>3,401,430</u>
	<u>\$ 7,875,890</u>	<u>\$ 8,023,052</u>

Depreciation expense amounted to \$576,868 for the year ended June 30, 2011 (\$528,154 for the year ended June 30, 2010). Property and equipment includes fully depreciated items with original costs totaling approximately \$1,316,000 at June 30, 2011 (\$1,268,000 at June 30, 2010).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 8 - DEBT

Debt consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
<u>Line of Credit</u>		
\$1,000,000 unsecured line of credit to a financial institution, increased to \$2,000,000 subsequent to year end and due on May 7, 2012. Interest is payable monthly at a rate of one-month LIBOR plus 2.5% (2.68% at June 30, 2011). Subject to certain financial covenants for debt service, liquidity and capital expenditures.	<u>\$ 1,000,000</u>	<u>\$ -</u>
<u>Notes Payable</u>		
\$650,000 note payable to a financial institution to finance renovations to the existing building. The note matures in 59 monthly principal payments of \$5,417 plus accrued interest with remaining principal and accrued interest due at maturity on January 3, 2015. The note bears interest at a variable rate equal to LIBOR plus 3% with a minimum of 3.75% (3.75% at June 30, 2011 and 2010).	457,917	622,917
Two notes payable to purchase two delivery trucks for \$96,803 and \$96,964, respectively. The notes required annual principal payments of \$24,201 and \$24,241, respectively, and were repaid in July 2010, before any interest was due.	<u>-</u>	<u>93,768</u>
Total notes payable	<u>457,917</u>	<u>716,685</u>
<u>Bond 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 were scheduled to mature on June 1, 2022. Interest was payable monthly and was computed on weekly rate periods not to exceed a maximum of 10%. The bonds were repaid in full in May 2011.	<u>-</u>	<u>350,000</u>
Total debt	<u>\$ 1,457,917</u>	<u>\$ 1,066,685</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 8 - DEBT (CONTINUED)

Annual principal maturities of debt at June 30, 2011 are as follows:

For the year ending June 30:

2012	\$ 1,065,000
2013	65,000
2014	65,000
2015	<u>262,917</u>
	<u>\$ 1,457,917</u>

Total interest expense incurred by the Food Bank was \$36,720 in 2011 and \$32,367 in 2010. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
United Way of Middle Tennessee - contribution pledge		
for the following period for program grants	\$ 187,229	\$ 320,975
Donations for Children's programs	87,600	36,000
Donations for Emergency Food Box program	29,500	36,627
Donations for Community Food Partners	194,603	201,354
Donations for Capital Campaign	-	790,326
Disaster Relief	<u>-</u>	<u>503,548</u>
	<u>\$ 498,932</u>	<u>\$ 1,888,830</u>



SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Food Bank to concentrations of credit risk consist of cash, investments, accounts receivable and pledges receivable. Pledges receivable consist of individual and corporate contribution pledges. At June 30, 2010, contributions receivable from two sources amounted to approximately \$1,050,000, or 70% of gross pledges receivable (no concentration existed at June 30, 2011).

The Food Bank maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of June 30, 2011, the Food Bank's depositor accounts did not exceed FDIC insurance limits.

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

NOTE 11 - 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, 2011, amounted to \$180,748 (\$151,012 for 2010).