

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2006 (CONSOLIDATED) AND 2005

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

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ADDITIONAL INFORMATION  
AND  
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JUNE 30, 2006 (CONSOLIDATED) AND 2005

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary (collectively, the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2006 (consolidated) and 2005, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 2006 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary as of June 30, 2006, and the consolidated changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Middle Tennessee, Inc. as of June 30, 2005, and the changes in its net assets and its cash flows for the year 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 November 14, 2006, on our consideration of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary's internal control over financial reporting and on our tests of their 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 consolidated schedule of expenditures of federal 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  
November 14, 2006

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 (CONSOLIDATED) AND 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Operating assets:		
Cash and cash equivalents	\$ 375,483	\$ 141,808
Accounts receivable	1,269,818	494,958
Pledges receivable - Note 2	396,836	375,484
Inventories - Note 3	2,479,934	2,163,019
Prepaid expenses	17,928	97,708
Investments - Note 4	1,236,989	1,076,919
Property and equipment - at cost, less accumulated depreciation - Note 5	7,175,159	7,470,035
Bond issue costs - net of accumulated amortization	95,004	100,973
Capital campaign assets:		
Cash and cash equivalents	344,072	419,698
Pledges receivable - Note 2	<u>266,825</u>	<u>537,956</u>
<b>TOTAL ASSETS</b>	<u>\$ 13,658,048</u>	<u>\$ 12,878,558</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,096,104	\$ 629,242
Deferred grant revenue	51,237	38,386
Capital lease obligation - Note 7	-	24,305
Line of credit obligation - Note 6	400,000	250,000
Bonds payable - Note 6	<u>1,980,000</u>	<u>2,702,375</u>
<b>TOTAL LIABILITIES</b>	<u>3,527,341</u>	<u>3,644,308</u>
<b>COMMITMENTS AND CONTINGENCIES - Notes 7, 9 and 11</b>		
<b>NET ASSETS</b>		
Unrestricted:		
Designated:		
Donated food inventory	1,662,180	1,433,111
Property and equipment, less related debt	5,195,159	4,743,355
Other board designations - Note 1	300,000	700,000
Undesignated	<u>1,877,467</u>	<u>1,615,491</u>
Total unrestricted	9,034,806	8,491,957
Temporarily restricted - Note 1	<u>1,095,901</u>	<u>742,293</u>
<b>TOTAL NET ASSETS</b>	<u>10,130,707</u>	<u>9,234,250</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 13,658,048</u>	<u>\$ 12,878,558</u>

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2006 (CONSOLIDATED) AND 2005

	2006		
	Unrestricted	Temporarily Restricted	Totals
REVENUES - PROJECT PRESERVE PROGRAM			
Sales to out of area network agencies, net of discount	\$ 11,440,299	\$ -	\$ 11,440,299
Donated food utilized and distributed	<u>541,710</u>	<u>-</u>	<u>541,710</u>
TOTAL REVENUES - PROJECT PRESERVE PROGRAM	11,982,009	-	11,982,009
DIRECT COSTS AND EXPENSES - PROJECT PRESERVE PROGRAM	<u>11,271,109</u>	<u>-</u>	<u>11,271,109</u>
GROSS PROFIT FROM PROJECT PRESERVE PROGRAM	<u>710,900</u>	<u>-</u>	<u>710,900</u>
SUPPORT AND REVENUE			
Donated food	8,439,546	-	8,439,546
Contributions	1,192,292	2,213,895	3,406,187
Government grants	515,692	-	515,692
Agency recovery fees	926,729	-	926,729
Culinary arts program	83,611	-	83,611
Special events and activities	476,996	47,300	524,296
Less: direct benefits to donors	(56,294)	-	(56,294)
Investment income - Note 4	161,466	-	161,466
Class action lawsuit settlement proceeds - Note 9	-	-	-
Other income	5,228	-	5,228
Net assets released in satisfaction of program restrictions	<u>2,001,768</u>	<u>(2,001,768)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>13,747,034</u>	<u>259,427</u>	<u>14,006,461</u>
EXPENSES			
Program services:			
Emergency Food Box	3,458,784	-	3,458,784
Food Recovery	5,354,380	-	5,354,380
Kids Café Program	727,362	-	727,362
Nashville's Table	2,484,778	-	2,484,778
Culinary Arts Program	<u>145,758</u>	<u>-</u>	<u>145,758</u>
Total Program Services	<u>12,171,062</u>	<u>-</u>	<u>12,171,062</u>
Supporting services:			
Management and general	1,057,680	-	1,057,680
Fund raising	689,679	-	689,679
Capital campaign	<u>67,160</u>	<u>-</u>	<u>67,160</u>
Total Supporting Services	<u>1,814,519</u>	<u>-</u>	<u>1,814,519</u>
TOTAL EXPENSES	<u>13,985,581</u>	<u>-</u>	<u>13,985,581</u>
CHANGE IN NET ASSETS	472,353	259,427	731,780
NET ASSETS - BEGINNING OF YEAR	8,491,957	742,293	9,234,250
NET ASSETS OF NASHVILLE'S TABLE, INC., MERGED EFFECTIVE JULY 1, 2005 - Note 11	<u>70,496</u>	<u>94,181</u>	<u>164,677</u>
NET ASSETS - END OF YEAR	<u>\$ 9,034,806</u>	<u>\$ 1,095,901</u>	<u>\$ 10,130,707</u>

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

2005		
Unrestricted	Temporarily Restricted	Totals
\$ 6,507,166	\$ -	\$ 6,507,166
<u>716,450</u>	<u>-</u>	<u>716,450</u>
7,223,616	-	7,223,616
<u>6,908,054</u>	<u>-</u>	<u>6,908,054</u>
<u>315,562</u>	<u>-</u>	<u>315,562</u>
5,581,158	-	5,581,158
1,284,619	874,802	2,159,421
697,812	-	697,812
842,936	-	842,936
89,556	-	89,556
321,151	-	321,151
(46,951)	-	(46,951)
105,950	-	105,950
527,000	-	527,000
14,039	-	14,039
<u>1,749,172</u>	<u>(1,749,172)</u>	<u>-</u>
<u>11,166,442</u>	<u>(874,370)</u>	<u>10,292,072</u>
2,895,193	-	2,895,193
4,730,061	-	4,730,061
487,191	-	487,191
-	-	-
<u>96,629</u>	<u>-</u>	<u>96,629</u>
<u>8,209,074</u>	<u>-</u>	<u>8,209,074</u>
812,838	-	812,838
524,431	-	524,431
<u>57,049</u>	<u>-</u>	<u>57,049</u>
<u>1,394,318</u>	<u>-</u>	<u>1,394,318</u>
<u>9,603,392</u>	<u>-</u>	<u>9,603,392</u>
1,878,612	(874,370)	1,004,242
6,613,345	1,616,663	8,230,008
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 8,491,957</u>	<u>\$ 742,293</u>	<u>\$ 9,234,250</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 (CONSOLIDATED) AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 731,780	\$ 1,004,242
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	424,903	378,476
Noncash contribution of property	(17,335)	(18,000)
Noncash contribution of investments	-	(18,127)
Unrealized and realized gains on investments	(150,937)	(78,331)
Loss on disposition of property and equipment	12,602	816
Capital improvement grant revenue recognized in revenues	(32,500)	(95,479)
Contributions for capital campaign, net of allowance and discount	(453,185)	(79,125)
(Increase) decrease in:		
Accounts receivable	(742,360)	3,192
Pledges receivable - operations	78,742	1,341
Inventories	(316,915)	(500,699)
Prepaid expenses	89,482	(51,463)
Increase (decrease) in:		
Accounts payable and accrued expenses	412,135	(68,852)
Deferred grant revenue	12,851	(38,028)
TOTAL ADJUSTMENTS	<u>(682,517)</u>	<u>(564,279)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>49,263</u>	<u>439,963</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash transferred in from merger of Nashville's Table, Inc. - Note 11	40,232	-
Proceeds from sales and maturities of investments	36,917	165,289
Purchases of investments	(46,050)	(78,459)
Additions to property and equipment	<u>(49,949)</u>	<u>(222,969)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(18,850)</u>	<u>(136,139)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on pledges for capital campaign	724,316	377,316
Payments on capital lease obligation	(24,305)	(68,738)
Proceeds from drawdowns on line of credit	700,000	500,000
Payments on line of credit	(550,000)	(475,000)
Payment of bonds payable	<u>(722,375)</u>	<u>(875,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>127,636</u>	<u>(541,422)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	158,049	(237,598)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>561,506</u>	<u>799,104</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 719,555</u>	<u>\$ 561,506</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 95,374</u>	<u>\$ 74,102</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchases in accounts payable	<u>\$ 32,500</u>	<u>\$ 197,859</u>

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

	PROGRAM SERVICES						SUPPORTING SERVICES			
	EMERGENCY FOOD BOX	FOOD RECOVERY	KIDS CAFÉ	PROJECT PRESERVE	NASHVILLE'S TABLE	CULINARY ARTS	MANAGEMENT AND GENERAL	FUND RAISING	CAPITAL CAMPAIGN	TOTALS
Salaries and contract labor	\$ 335,984	\$ 564,545	\$ 160,388	\$ 317,574	\$ 236,868	\$ 64,680	\$ 381,749	\$ 201,132	\$ 21,285	\$ 2,284,205
Payroll taxes and benefits	74,605	138,681	33,437	61,541	41,796	11,931	112,091	52,815	8,430	535,327
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<b>410,589</b>	<b>703,226</b>	<b>193,825</b>	<b>379,115</b>	<b>278,664</b>	<b>76,611</b>	<b>493,840</b>	<b>253,947</b>	<b>29,715</b>	<b>2,819,532</b>
Occupancy	45,464	79,467	12,006	32,852	50,133	14,407	67,592	19,089	1,138	322,148
Communication expense	8,236	9,852	79,425 <sup>(1)</sup>	2,533	5,906	525	38,499	164,912	13	309,901
Food supplies and distribution	116,873	1,026,643	57,910	9,586,083	13,910	30,702	1,037	639	-	10,833,797
Donated food	2,361,436	3,745,465	182,097	455,937	2,007,405	-	-	-	-	8,752,340
Internal food purchases and/or reimbursement	372,051	(523,909)	139,986	-	3,280	(17,176)	22,534	3,234	-	-
Product transportation	26,680	80,820	6,490	684,267	34,065	105	6,220	40	-	838,687
Office and administration - Note 6	10,938	34,395	3,013	31,316	12,616	2,982	214,756	65,760	362	376,138
Travel and conferences	5,626	3,723	211	10,056	1,691	-	26,431	11,090	-	58,828
Professional fees	699	185	50	4,043	7,126	-	106,829	19,537	28,214	166,683
Other special event costs	-	-	-	-	-	-	-	177,193	-	177,193
Insurance	24,490	43,733	12,246	24,491	41,274	5,248	63,859	15,744	1,749	232,834
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>3,383,082</b>	<b>5,203,600</b>	<b>687,259</b>	<b>11,210,693</b>	<b>2,456,070</b>	<b>113,404</b>	<b>1,041,597</b>	<b>731,185</b>	<b>61,191</b>	<b>24,888,081</b>
Depreciation and amortization	75,702	150,780	40,103	60,416	28,708	32,354	16,083	14,788	5,969	424,903
<b>TOTAL EXPENSES</b>	<b>3,458,784</b>	<b>5,354,380</b>	<b>727,362</b>	<b>11,271,109</b>	<b>2,484,778</b>	<b>145,758</b>	<b>1,057,680</b>	<b>745,973</b>	<b>67,160</b>	<b>25,312,984</b>
Less expenses included with revenues on the statement of activities - direct benefits to donors	-	-	-	-	-	-	-	(56,294)	-	(56,294)
Less expenses reported with Project Preserve program revenues as direct costs and expenses on the statement of activities	-	-	-	(11,271,109)	-	-	-	-	-	(11,271,109)
<b>TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES</b>	<b>\$ 3,458,784</b>	<b>\$ 5,354,380</b>	<b>\$ 727,362</b>	<b>\$ -</b>	<b>\$ 2,484,778</b>	<b>\$ 145,758</b>	<b>\$ 1,057,680</b>	<b>\$ 689,679</b>	<b>\$ 67,160</b>	<b>\$ 13,985,581</b>

<sup>(1)</sup>Includes \$78,000 donated radio advertising.

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



SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2005

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

<sup>(1)</sup> Includes \$18,700 donated transportation.

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 (CONSOLIDATED) AND 2005

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 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. (a Tennessee not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code) was merged effective July 1, 2005. Pursuant to Section 48-61-101, et seq., of the Tennessee Nonprofit Corporation Act, the Food Bank became the sole owner of Nashville's Table, Inc. Nashville's Table, Inc. retained its separate not-for-profit status, and has been included as part of the Food Bank's consolidated operations from that date forward. (See Note 11.)

Basis of presentation

The consolidated financial statements (beginning in 2006) include the accounts of the Food Bank and Nashville's Table, Inc. (collectively, the "Agency"), and have been prepared on the accrual basis of accounting. Material intercompany accounts and transactions have been eliminated in consolidation.

Contributions and support

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

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

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

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

	<u>2006</u>	<u>2005</u>
Operating funds	\$ 375,483	\$ 141,808
Capital campaign funds	<u>344,072</u>	<u>419,698</u>
	<u>\$ 719,555</u>	<u>\$ 561,506</u>

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (3.16% in 2006 and 2005). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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

Accounts receivable

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

Inventories

Food inventories include donated food, purchased inventory, and undistributed USDA commodities, which are valued at the most recent USDA established market value per pound amount. USDA commodities are recognized as program services expense when distributed. Donated products utilized in the cook/chill operation, which include ingredients, fresh products, and other surplus commodities, are valued at \$0.50 per pound in 2006 and 2005, which is an estimated average cost for such products. All other donated food received from food drives, food companies, and America's Second Harvest that is utilized in other operations is valued at \$1.50 per pound in 2006 (\$1.49 per pound in 2005), the estimated average market value at the date of gift, based on a study commissioned by the national office. USDA inventory is reported at the lower of cost (first-in, first-out method) or fair value, and purchased inventory is reported at average cost.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Property and depreciation

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

Bond issue costs

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

Temporarily restricted net assets

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

	<u>2006</u>	<u>2005</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 262,813	\$ 137,701
Other contributions or pledges for following period not restricted to specific programs	111,050	-
Donations for Kids Café program	41,950	34,791
Donations for Emergency Food Box program	26,200	25,500
Donations for Nashville's Table	29,075	-
Donations for Culinary Arts Center	5,000	-
Donations for Capital Campaign	<u>619,813</u>	<u>544,301</u>
	<u>\$ 1,095,901</u>	<u>\$ 742,293</u>

Income taxes

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Designated unrestricted net assets

The Board of Directors has designated \$300,000 of its unrestricted net assets to be invested, with the income used to support current operations of the Agency. During 2005, the Board designated an additional \$400,000 for the capital campaign. This amount was used for bond principal repayment in 2006. Designations may be reversed at the discretion of the Board of Directors.

Volunteer services

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

Use of estimates in the preparation of financial statements

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

Program and supporting services - functional allocation

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

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

Emergency Food Box - provided over 1,880,000 pounds of food during 2006 (1,800,000 pounds in 2005) in emergency staples to families in need through its fourteen satellite centers in Davidson County.

Food Recovery - provided over 3,289,000 pounds of food during 2006 (2,800,000 pounds in 2005) to over 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs.

Kids Café - operates a weekly feeding program for children at risk of hunger at several area community centers; provided over 174,000 meals during 2006 (157,000 meals in 2005).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program services (Continued)

Project Preserve - operates a unique program that distributes product to local agencies and affiliates. The program has operated as a brokerage service to 144 other food banks throughout the country in order to offer a wide variety of products at significantly lower prices. Through its canning of soups and stews, the program has been able to preserve perishable food that would have otherwise been wasted. In addition, the program has a cook/chill operation. This is a method of food manufacturing that involves heating food, pumping the product into a form-fill plastic bag that 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. The program distributed over 689,000 meals (based on a 12-ounce portion) during 2006 (531,000 meals in 2005) under this program.

Nashville's Table - collects perishable food from more than 170 food donors, such as restaurants, grocery stores, cafeterias, bakeries, and caterers, which is then distributed to more than 100 nonprofit partner agencies such as low-income daycare centers, soup kitchens, domestic violence shelters, rehabilitation centers, and senior citizens' centers. During 2006, the Agency distributed over 1,356,000 pounds of food (equivalent to more than one million meals) under this program.

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

Supporting services

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

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

Capital campaign - includes cost of solicitations in 2006 and 2005, for the capital campaign specifically related to the acquisition and construction of the new facility.

Allocation of functional expenses

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Due in less than one year	\$ 669,444	\$ 695,001
Due in one to five years	<u>6,000</u>	<u>233,833</u>
	675,444	928,834
Less: Discount to present value	-	(14,594)
Less: Allowance for uncollectible pledges	<u>(11,783)</u>	<u>(800)</u>
Present value of pledges receivable	<u>\$ 663,661</u>	<u>\$ 913,440</u>

Pledges receivable are classified as follows at June 30:

	<u>2006</u>	<u>2005</u>
Operating	\$ 396,836	\$ 375,484
Capital campaign pledges	<u>266,825</u>	<u>537,956</u>
	<u>\$ 663,661</u>	<u>\$ 913,440</u>

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Donated ingredients to be utilized in cook/chill operation	\$ 395,173	\$ 307,809
Other donated food inventory	1,267,007	1,125,302
USDA inventory	51,237	38,386
Cook/chill manufactured inventory	76,326	80,062
Purchased inventory	<u>690,191</u>	<u>611,460</u>
	<u>\$ 2,479,934</u>	<u>\$ 2,163,019</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 4 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2006</u>		<u>2005</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Liquid money market funds	\$ 37,091	\$ 37,091	\$ 27,961	\$ 27,961
Equity securities:				
Bond Fund of America - 11,098				
shares (10,545 shares in 2005)	144,052	146,905	142,466	139,599
Euro Pacific Growth Fund - 3,350				
shares (3,191 shares in 2005)	147,086	99,342	114,588	92,823
Growth Mutual of America - 10,380				
shares (10,242 shares in 2005)	329,050	227,602	285,142	223,352
Small Cap World Fund - 6,363				
shares (6,173 shares in 2005)	241,998	166,690	196,850	159,962
Washington Mutual Investments -				
10,517 shares (10,171 shares in 2005)	<u>337,712</u>	<u>322,725</u>	<u>309,912</u>	<u>311,829</u>
	<u>\$ 1,236,989</u>	<u>\$ 1,000,355</u>	<u>\$ 1,076,919</u>	<u>\$ 955,526</u>

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

	<u>2006</u>	<u>2005</u>
Realized gain (loss) - net	\$ -	\$ (446)
Unrealized gains - net	115,241	78,777
Dividends and interest income	<u>46,225</u>	<u>27,619</u>
	<u>\$ 161,466</u>	<u>\$ 105,950</u>



SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Land	\$ 1,334,586	\$ 1,334,586
Building and improvements	5,625,067	5,622,343
Office and warehouse equipment	1,122,359	1,067,939
Transportation equipment	616,729	368,743
Cook/Chill equipment	367,507	363,462
Culinary arts center equipment	78,690	78,690
Project Preserve equipment	<u>10,500</u>	<u>10,500</u>
	9,155,438	8,846,263
Less accumulated depreciation	<u>1,980,279</u>	<u>1,376,228</u>
	<u>\$ 7,175,159</u>	<u>\$ 7,470,035</u>

Property and equipment included fully depreciated items with an original cost of approximately \$724,000 at June 30, 2006 (\$430,000 in 2005.)

NOTE 6 - DEBT OBLIGATIONS

Debt obligations consisted of the following at June 30:

	<u>2006</u>	<u>2005</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 2.37% - 3.66% in 2006), not to exceed a maximum of 10%. Bonds are secured by a letter of credit issued by a local bank.	<u>\$ 1,980,000</u>	<u>\$ 2,702,375</u>

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 6 - DEBT OBLIGATIONS (CONTINUED)

The Agency also has an unsecured \$800,000 operating line of credit with a financial institution (increased from \$400,000 in February 2006). The line is evidenced by a promissory note which bears interest, payable monthly, on the amount borrowed at an interest rate equal to the bank's prime rate. This line of credit will mature February 8, 2007. There was a \$400,000 balance outstanding under this line at June 30, 2006 (\$250,000 at June 30, 2005).

Total interest expense incurred by the Agency was \$95,374 in 2006 and \$74,102 in 2005. Interest expense is included in office and administration.

NOTE 7 - LEASES

The Agency leased certain office furniture, with a capitalized cost of \$206,211, under a noncancelable agreement accounted for as a capital lease. The Agency exercised its purchase option at the end of the lease term in November 2005, and purchased the furniture for \$1. The obligation matured in monthly installments of \$5,728 through November 2005.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Agency sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowable under the Internal Revenue Code. In addition, the plan requires the Agency to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Agency contributions to the plan for the year ended June 30, 2006, amounted to \$111,518 (\$89,614 for 2005).

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist of cash, investments and pledges receivable. Pledges receivable consist of individual and corporate contribution pledges. At June 30, 2006, contributions receivable from two sources amounted to approximately \$268,000, or 47% of total pledges receivable by the Agency (\$514,000 and 56% in 2005). During 2006, the Agency received one contribution of \$400,000, or 11.5% of total contributions revenue (no single contributions exceeded 10% of total contributions in 2005).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

NOTE 9 - CONCENTRATIONS OF CREDIT RISK (CONTINUED)

In October 2004, the Agency was authorized by the Chancery Court of Davidson County, Tennessee, to receive a one-time, \$527,000 distribution out of the net settlement fund from the Sorbates class action lawsuit. This amount was reported as revenue in the 2005.

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

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

NOTE 10 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006, the Agency purchased goods and services from companies associated with members of the Board of Directors, as follows: approximately \$8,300 for purchased food products (\$8,000 in 2005); \$13,200 for legal services (\$2,000 in 2005); and \$16,000 for equipment maintenance (\$10,000 in 2005). In addition, two Board members donated legal services valued at approximately \$36,000 during 2006 (\$15,000 in 2005).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.  
AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 (CONSOLIDATED) AND 2005

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

A summary of the assets and liabilities of Nashville's Table, Inc. that were merged with the Food Bank's subsidiary effective July 1, 2005 (see Note 1), follows:

Pledges receivable	\$ 100,094
Other current assets	9,702
Property and equipment, net	36,876
Accrued liabilities	<u>(22,227)</u>
	124,445
Cash	<u>40,232</u>
 Total net assets acquired pursuant to merger	 <u>\$ 164,677</u>
 Net assets	
Unrestricted net assets	\$ 70,496
Temporarily restricted net assets	<u>94,181</u>
	 <u>\$ 164,677</u>

Total net assets acquired pursuant to the merger include contributions receivable in the amount of \$94,181 as of July 1, 2005, that were not previously recognized by Nashville's Table, Inc.

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2005	7/1/05 - 6/30/06			(ACCRUED) DEFERRED REVENUE 6/30/06
						RECEIPTS	RETURNED TO GRANTOR	EXPENDITURES	
U. S. DEPARTMENT OF AGRICULTURE									
Passed Through Tennessee Department of Human Services									
Summer Food Service Program (SFSP)	10.559	DA-0500086-00	05/01/05 - 09-30-05	*	\$ -	\$ 10,775	\$ 2,079	\$ 8,696	\$ -
Summer Food Service Program (SFSP)	10.559	DA-0600110-00	05/01/06 - 09-30-06	*	-	6,670	-	6,670	-
TOTAL CFDA 10.559					-	17,445	2,079	15,366	-
Passed Through Tennessee Department of Agriculture									
Emergency Food Assistance Program - Administrative Costs	10.568 (1)	GA-05-16681-00	10/1/04 - 9/30/05	\$ 54,016	(14,936)	24,445	-	9,509	-
Emergency Food Assistance Program - Administrative Costs	10.568 (1)	GA-06-17418-00	10/1/05 - 9/30/06	\$ 56,015	-	21,053	-	29,423	(8,370)
Emergency Food Assistance Program - Commodities	10.569 (1)	GA-05-16681-00 and GA-06-17418-00	10/1/04 - 9/30/05 and 10/1/05 - 9/30/06	*	38,386	350,562	-	337,711	51,237
TOTAL CFDA 10.568 AND 10.569					23,450	396,060	-	376,643	42,867
TOTAL U.S. DEPARTMENT OF AGRICULTURE					23,450	413,505	2,079	392,009	42,867
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	B-06-SP-TN-0970	11/30/05 - 10/29/10	\$ 396,000	-	-	-	32,500	(32,500)
DEPARTMENT OF HOMELAND SECURITY									
Passed Through United Way of Middle Tennessee:									
Emergency Management Food and Shelter Program	97.024	23-7652-00	10/01/04-9/30/05	\$ 61,326	-	36,960	-	36,960	-
Emergency Management Food and Shelter Program	97.024	24-7652-00	10/1/05 - 9/30/06	\$ 54,223	-	54,223	-	54,223	-
TOTAL CFDA 97.024					-	91,183	-	91,183	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 23,450	\$ 504,688	\$ 2,079	\$ 515,692	\$ 10,367

\* Not specified.

(1) Denotes a major program

**BASIS OF PRESENTATION**

This schedule includes the federal grant activity of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary, 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. and Subsidiary  
Nashville, Tennessee

We have audited the consolidated financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary, Tennessee not-for-profit corporations, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 14, 2006. 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 Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Middle Tennessee, Inc. and Subsidiary's financial statements are free of material misstatement, we performed tests of their 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 and 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. and Subsidiary in a separate letter dated November 14, 2006.

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.

KrajCPAs PLLC

Nashville, Tennessee  
November 14, 2006