

FEEDING AMERICA

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

FEEDING AMERICA

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	6
Notes to Financial Statements	7



KPMG LLP
303 East Wacker Drive
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Independent Auditors' Report

The Board of Directors
Feeding America:

We have audited the accompanying balance sheets of Feeding America as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Feeding America'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. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Feeding America's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Feeding America 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 U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, Feeding America adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, and FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*, as of July 1, 2008.

KPMG LLP

September 14, 2009

FEEDING AMERICA

Balance Sheets

June 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 3,666,598	4,000,994
Short-term investments	16,552,764	7,570,376
Pledges receivable	549,885	26,468,255
Receivables and other assets	4,136,870	1,061,799
Total current assets	24,906,117	39,101,424
Investments	10,002,340	10,539,316
Pledges receivable, net	242,131	517,105
Furniture and equipment, net of accumulated depreciation of \$1,063,007 and \$914,350 in 2009 and 2008, respectively	2,335,386	715,401
Total assets	\$ 37,485,974	50,873,246
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,311,804	5,943,678
Deferred revenue	96,951	13,866
Current portion of other obligations	78,491	104,002
Current portion of leases payable	222,589	54,104
Total current liabilities	7,709,835	6,115,650
Other obligations	536,768	602,457
Leases payable	1,986,683	269,746
Total liabilities	10,233,286	6,987,853
Net assets:		
Unrestricted	14,931,644	11,486,850
Temporarily restricted	10,893,610	30,980,186
Permanently restricted	1,427,434	1,418,357
Total net assets	27,252,688	43,885,393
Total liabilities and net assets	\$ 37,485,974	50,873,246

See accompanying notes to financial statements.

FEEDING AMERICA
 Statements of Activities
 Years ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Public support and revenue:								
Public support:								
Donated goods and services	\$ 538,221,606	—	—	538,221,606	505,064,532	—	—	505,064,532
Individual contributions	24,933,211	64,178	—	24,997,389	20,573,250	93,658	—	20,666,908
Corporate contributions	9,795,097	5,573,359	—	15,368,456	3,469,877	5,247,508	—	8,717,385
Foundation grants	2,487,528	7,589,017	—	10,076,545	7,682,248	39,845,598	—	47,527,846
Corporate promotions	3,841,635	572,734	—	4,414,369	2,652,476	827,382	—	3,479,858
Net assets released from restrictions:								
Satisfaction of program restriction	33,859,834	(33,859,834)	—	—	24,895,688	(24,895,688)	—	—
Expiration of time restriction	—	—	—	—	170,000	(170,000)	—	—
Revenue:								
Member fees	2,339,707	—	—	2,339,707	2,245,478	—	—	2,245,478
Member revenue	21,763,337	—	—	21,763,337	7,595,842	—	—	7,595,842
Conference fees	416,879	—	—	416,879	427,657	—	—	427,657
Publications, administrative, and materials fees	426,037	—	—	426,037	463,713	—	—	463,713
Other revenue	77,487	—	—	77,487	772,275	—	—	772,275
Investment income (loss)	603,050	(26,030)	59,517	636,537	845,776	(388)	39,096	884,484
Total public support and revenue	<u>638,765,408</u>	<u>(20,086,576)</u>	<u>59,517</u>	<u>618,738,349</u>	<u>576,858,812</u>	<u>20,948,070</u>	<u>39,096</u>	<u>597,845,978</u>
Expenses:								
Program services:								
Member services	566,811,621	—	—	566,811,621	530,159,709	—	—	530,159,709
Supply chain services	29,852,288	—	—	29,852,288	20,272,508	—	—	20,272,508
Product development	2,405,871	—	—	2,405,871	1,284,518	—	—	1,284,518
Public awareness and education	2,309,598	—	—	2,309,598	1,734,521	—	—	1,734,521
Public policy	3,660,147	—	—	3,660,147	2,634,018	—	—	2,634,018
Research and analysis	2,247,442	—	—	2,247,442	611,304	—	—	611,304
Total program services	<u>607,286,967</u>	<u>—</u>	<u>—</u>	<u>607,286,967</u>	<u>556,696,578</u>	<u>—</u>	<u>—</u>	<u>556,696,578</u>
Supporting services:								
Management and general	16,370,371	—	—	16,370,371	9,091,439	—	—	9,091,439
Fund development	11,780,967	—	—	11,780,967	10,568,815	—	—	10,568,815
Total supporting services	<u>28,151,338</u>	<u>—</u>	<u>—</u>	<u>28,151,338</u>	<u>19,660,254</u>	<u>—</u>	<u>—</u>	<u>19,660,254</u>
Total expenses	<u>635,438,305</u>	<u>—</u>	<u>—</u>	<u>635,438,305</u>	<u>576,356,832</u>	<u>—</u>	<u>—</u>	<u>576,356,832</u>
Increase (decrease) in net assets as a result of operations	3,327,103	(20,086,576)	59,517	(16,699,956)	501,980	20,948,070	39,096	21,489,146
Nonoperating activities:								
Wills and bequests	654,919	—	—	654,919	681,432	—	—	681,432
Individual contributions	—	—	32,000	32,000	—	—	22,000	22,000
Other revenue	—	—	—	—	—	1,233	—	1,233
Net realized and unrealized losses on investments	(526,612)	—	(82,440)	(609,052)	(561,958)	—	(78,109)	(640,067)
Loss on disposition of furniture and equipment	(10,616)	—	—	(10,616)	—	—	—	—
Changes in net assets	3,444,794	(20,086,576)	9,077	(16,632,705)	621,454	20,949,303	(17,013)	21,553,744
Net assets at beginning of year	11,486,850	30,980,186	1,418,357	43,885,393	10,865,396	10,030,883	1,435,370	22,331,649
Net assets at end of year	<u>\$ 14,931,644</u>	<u>10,893,610</u>	<u>1,427,434</u>	<u>27,252,688</u>	<u>11,486,850</u>	<u>30,980,186</u>	<u>1,418,357</u>	<u>43,885,393</u>

See accompanying notes to financial statements.

FEEDING AMERICA

Statement of Functional Expenses

Year ended June 30, 2009

	Program services							Supporting services			Total expenses
	Member services	Supply chain services	Product development	Public awareness and education	Public policy	Research and analysis	Total	Management and general	Fund development	Total	
Salaries	\$ 2,941,973	1,676,414	1,361,971	845,910	1,165,421	167,480	8,159,169	4,097,586	1,868,416	5,966,002	14,125,171
Employee benefits	502,382	306,156	230,047	134,149	166,672	34,482	1,373,888	486,492	290,746	777,238	2,151,126
Payroll taxes	187,578	119,409	96,272	57,941	75,628	13,654	550,482	224,711	141,294	366,005	916,487
Total salaries and related expenses	3,631,933	2,101,979	1,688,290	1,038,000	1,407,721	215,616	10,083,539	4,808,789	2,300,456	7,109,245	17,192,784
Professional services	3,125,188	169,636	2,343	523,063	949,890	1,886,437	6,656,557	5,675,825	1,744,444	7,420,269	14,076,826
Fees for service	18,359	—	—	16,726	99,507	—	134,592	64,683	164,955	229,638	364,230
Professional development	4,317	2,389	1,998	817	1,899	—	11,420	22,234	1,599	23,833	35,253
Supplies	179,540	18,370	17,728	31,266	25,923	818	273,645	259,334	16,058	275,392	549,037
Telecommunication	102,948	28,392	32,100	23,841	56,010	6,604	249,895	153,452	49,286	202,738	452,633
Publications/membership	14,037	4,201	657	6,765	53,841	281	79,782	102,032	4,259	106,291	186,073
Public service advertising	—	—	—	—	—	—	—	3,295,867	—	3,295,867	3,295,867
Postage	12,577	5,519	8,866	56,442	9,933	2,543	95,880	14,130	2,950,596	2,964,726	3,060,606
Transportation	—	594,873	—	—	—	—	594,873	—	—	—	594,873
Disaster purchases and transportation	2,283,612	—	—	—	—	—	2,283,612	—	—	—	2,283,612
Purchase programs	—	26,205,430	—	—	101,817	—	26,307,247	—	—	—	26,307,247
Occupancy	174,064	132,920	80,123	57,917	398,042	14,107	857,173	182,113	110,685	292,798	1,149,971
Insurance	22,459	17,479	10,405	7,590	9,023	1,855	68,811	23,139	14,113	37,252	106,063
Equipment maintenance	176,309	11,738	6,987	5,234	9,300	1,246	210,814	40,017	9,478	49,495	260,309
Print and production	65,204	10,945	15,353	308,550	48,409	1,748	450,209	50,699	4,198,847	4,249,546	4,699,755
Travel	547,030	57,093	156,197	199,625	192,084	40,218	1,192,247	403,031	151,009	554,040	1,746,287
Special events	387,823	2,285	990	1,935	78,448	464	471,945	668,009	3,236	671,245	1,143,190
Interest expense	—	—	—	—	—	—	—	—	—	—	—
Software expense	330,995	—	—	1,629	—	—	332,624	113,541	5,795	119,336	451,960
Program grants	18,193,025	—	342,436	—	182,401	68,124	18,785,986	—	—	—	18,785,986
Miscellaneous	—	—	—	—	—	—	—	52,140	—	52,140	52,140
Total expenses before donated goods and services and depreciation	29,269,420	29,363,249	2,364,473	2,279,400	3,624,248	2,240,061	69,140,851	15,929,035	11,724,816	27,653,851	96,794,702
Donated goods and services	537,452,843	419,494	—	—	—	—	537,872,337	349,269	—	349,269	538,221,606
Depreciation	89,358	69,545	41,398	30,198	35,899	7,381	273,779	92,067	56,151	148,218	421,997
Total	\$ 566,811,621	29,852,288	2,405,871	2,309,598	3,660,147	2,247,442	607,286,967	16,370,371	11,780,967	28,151,338	635,438,305
Percent of total expenses	89.20%	4.70%	0.38%	0.36%	0.58%	0.35%	95.57%	2.58%	1.85%	4.43%	100.00%

See accompanying notes to financial statements.

FEEDING AMERICA
Statement of Functional Expenses
Year ended June 30, 2008

	Program services							Supporting services			Total expenses
	Member services	Supply chain services	Product development	Public awareness and education	Public policy	Research and analysis	Total	Management and general	Fund development	Total	
Salaries	\$ 2,044,505	1,625,768	786,444	645,074	936,839	317,556	6,356,186	2,497,761	1,456,753	3,954,514	10,310,700
Employee benefits	411,675	359,612	80,737	108,046	132,395	58,237	1,150,702	332,994	258,160	591,154	1,741,856
Payroll taxes	153,879	144,338	33,464	44,280	65,604	24,038	465,603	139,786	106,620	246,406	712,009
Total salaries and related expenses	2,610,059	2,129,718	900,645	797,400	1,134,838	399,831	7,972,491	2,970,541	1,821,533	4,792,074	12,764,565
Professional services	1,318,815	1,144,652	195,359	606,844	606,528	136,084	4,008,282	4,221,922	1,798,924	6,020,846	10,029,128
Fees for service	16,989	—	—	14,091	112,169	—	143,249	71,472	14,072	85,544	228,793
Professional developmen	10,206	2,592	1,906	2,023	689	3,724	21,140	28,159	3,376	31,535	52,675
Supplies	111,867	12,008	5,115	14,171	11,581	2,227	156,969	106,724	16,162	122,886	279,855
Telecommunication	205,506	38,787	12,100	16,480	43,468	7,479	323,820	98,685	47,933	146,618	470,438
Publications/membership	14,084	4,176	210	2,715	67,320	393	88,898	100,298	14,286	114,584	203,482
Public service advertising	—	72,352	—	—	—	—	72,352	278,956	10,000	288,956	361,308
Postage	17,793	11,349	3,612	11,720	10,330	2,093	56,897	12,084	2,312,927	2,325,011	2,381,908
Transportation	—	585,500	—	—	—	—	585,500	—	—	—	585,500
Disaster purchases and transportation	725,536	1,139,918	—	—	—	—	1,865,454	—	—	—	1,865,454
Purchase programs	3,400	13,869,967	—	—	72	—	13,873,439	—	—	—	13,873,439
Occupancy	175,166	147,254	54,980	54,077	379,201	29,569	840,247	138,041	123,640	261,681	1,101,928
Insurance	14,883	12,649	4,663	4,538	4,822	2,540	44,095	11,164	10,440	21,604	65,699
Equipment maintenance	173,996	18,848	7,271	6,762	14,051	3,785	224,713	60,353	15,642	75,995	300,708
Print and production	72,897	162,048	16,788	40,746	18,493	5,972	316,944	14,162	4,123,492	4,137,654	4,454,598
Travel	578,118	125,734	57,501	134,046	161,332	4,202	1,060,933	397,126	192,713	589,839	1,650,772
Special events	437,232	2,394	738	4,587	7,370	533	452,854	22,994	8,765	31,759	484,613
Interest expense	—	—	—	—	—	—	—	13,298	—	13,298	13,298
Software expense	3,931	1,220	—	1,324	—	—	6,475	6,931	2,000	8,931	15,406
Program grants	19,690,809	10,000	—	—	36,318	—	19,737,127	—	—	—	19,737,127
Miscellaneous	—	—	—	—	1,000	—	1,000	37,650	—	37,650	38,650
Total expenses before donated goods and services and depreciator	26,181,287	19,491,166	1,260,888	1,711,524	2,609,582	598,432	51,852,879	8,590,560	10,515,905	19,106,465	70,959,344
Donated goods and services	503,902,994	717,238	—	—	—	—	504,620,232	444,300	—	444,300	505,064,532
Depreciation	75,428	64,104	23,630	22,997	24,436	12,872	223,467	56,579	52,910	109,489	332,956
Total	\$ 530,159,709	20,272,508	1,284,518	1,734,521	2,634,018	611,304	556,696,578	9,091,439	10,568,815	19,660,254	576,356,832
Percent of total expenses	92.74%	3.19%	0.20%	0.27%	0.41%	0.10%	96.91%	1.43%	1.66%	3.09%	100.00%

See accompanying notes to financial statements.

FEEDING AMERICA

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (16,632,705)	21,553,744
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	421,997	332,956
Deferred lease obligation	1,885,422	(27,440)
Net loss on investments	609,052	640,067
Net loss on disposition of furniture and equipment	10,616	—
Contributions restricted for long-term investment	(686,919)	(703,432)
Distribution of software held for relicense	—	67,269
Changes in operating assets and liabilities:		
Pledges receivable	26,193,344	(24,201,604)
Receivables and other assets	(3,075,071)	90,284
Accounts payable and accrued expenses	1,368,126	3,783,119
Deferred revenue	83,085	(26,509)
Other obligations	(91,200)	312,412
Net cash provided by operating activities	10,085,747	1,820,866
Cash flows from investing activities:		
Purchase of investments	(108,816,002)	(22,157,465)
Sale of investments	99,761,538	18,379,681
Net purchase of furniture and equipment	(2,052,598)	(409,090)
Net cash used in investing activities	(11,107,062)	(4,186,874)
Net cash provided by financing activities – contributions restricted for long-term investment	686,919	703,432
Net decrease in cash and cash equivalents	(334,396)	(1,662,576)
Cash and cash equivalents at beginning of year	4,000,994	5,663,570
Cash and cash equivalents at end of year	\$ 3,666,598	4,000,994

See accompanying notes to financial statements.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

(1) Organization and Purpose

The mission of Feeding America is to feed America's hungry through a nationwide network of member food banks and engage our country in the fight to end hunger.

(a) *Basis of Accounting*

The financial statements of Feeding America have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Management of Feeding America has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those results but, in the opinion of management, such differences would not be material.

(b) *Cash Equivalents*

Cash equivalents consist of highly liquid short-term instruments including money market account deposits and commercial paper investments with maturities of 90 days or less.

(c) *Investments and Related Income, Gains, and Losses*

Investments in equity and debt securities are reported at fair value. Fair values are primarily determined based on quoted market prices. Investment income (comprised of interest and dividends) is included in operating revenue and support. Realized and unrealized gains and losses on investments are reported as nonoperating gains and losses. Realized and unrealized gains and losses on permanent endowment funds are reported directly to permanently restricted net assets.

On July 1, 2008, Feeding America adopted the provisions of FASB Statement No. 157 (Statement 157), *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Statement 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 3).

(d) *Pledges Receivable*

Feeding America reports unconditional promises to give as contributions. If pledges are expected to be collected in less than one year, they are recorded at the estimated amount to be ultimately realized. If pledges are to be paid to the organization over a period of years, they are recorded at the present value of their estimated cash flows using the prime rate as of the fiscal year-end in the year of donation. Pledge amounts due in excess of one year after June 30, 2009 have been discounted to net realizable value at a discount rate of 3.25%. Gross pledges are receivable as follows: 2010 – \$549,885 and 2011 – \$250,000.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

(e) Furniture and Equipment

Furniture and equipment are stated on the basis of cost at date of purchase or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

(f) Gift Annuities

Feeding America enters into agreements with donors in which the donor contributes assets in exchange for an annuity to be paid to the donor or their designee for a specified period of time. Feeding America records the entire value of the asset as a liability until termination of the agreement. Upon termination, any residual amount is recognized as a charitable contribution.

(g) Donated Goods and Services

Feeding America reports the fair value of gifts of donated food and grocery products over which it has control (i.e., variance power) as unrestricted public support and, shortly thereafter, as expense when granted to member food banks. During the years ended June 30, 2009 and 2008, Feeding America distributed approximately 340 million pounds and 338 million pounds, respectively, of donated product received from approximately 320 national donors. Many of the national donors donate food and grocery products directly to local members. Those donations are not included in the accompanying financial statements. The approximate average wholesale value of one pound of donated product at the national level, which was determined to be \$1.58 during 2009 and \$1.49 during 2008, was based upon a study performed by Feeding America.

During 2009, Feeding America offset \$59,527,000 of 2008 donated product revenue against 2008 donated product expense to be consistent with the composition of donated pounds in 2009.

In addition, a number of individuals and organizations have made in-kind donations or volunteered their services to Feeding America. For those services that do not require special expertise, the estimated value of such donated services has not been recorded in the financial statements. In-kind donations and services requiring specific expertise have been reflected in the financial statements at their estimated fair value. For the years ended June 30, 2009 and 2008, Feeding America received approximately \$538,222,000 and \$505,065,000 in donated product and services, respectively.

(h) Contributions

Feeding America maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements have been prepared to focus on Feeding America as a whole and to present balances and transactions classified according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances into three classes of net assets – permanently restricted, temporarily restricted, or unrestricted.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted. Amounts required to be maintained in perpetuity by the donor are reported as permanently restricted net assets.

Corporate promotions differ from corporate contributions in that there is a promotional factor involved with the donor. Both Feeding America and the donor receive more advertising and publicity through this type of effort than through a normal corporate contribution. The amount of the funds received is based on the promotional activity.

Contributions, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. A donor restriction expires when a time restriction ends or when the purpose for which it was intended is attained. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

It is the policy of Feeding America to transfer the proceeds of all wills and bequests for long-term investment into the board-designated reserve account.

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 117-1, *Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 is effective for fiscal years ending after December 15, 2008 and provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. The FSP enhances disclosures related to both donor-restricted and board-designated endowment funds, whether or not the organization is subject to UPMIFA (note 6).

(i) ***Hurricane Disaster Relief Fund***

The Hurricane Disaster Relief Fund (Relief Fund) was established in 2005 by Feeding America in response to the devastating impact of Hurricanes Katrina, Rita, and Wilma. The Relief Fund was utilized to accumulate and distribute donor contributions restricted for hurricane relief purposes. Contributions for the Relief Fund were reported in temporarily restricted net assets. In 2008, the remaining expenditures related to the hurricane disaster relief efforts were completed. All remaining net assets were released from restrictions and accordingly, the Hurricane Disaster Relief Fund was liquidated and the account was closed.

(j) ***Operations***

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions and not expended in the current fiscal year. Expenses are reported as decreases in unrestricted net assets.

Member fees include annual fees assessed to member organizations as well as additional fees to help defray the costs of the comprehensive quadrennial hunger study.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

Member revenue is that portion of the costs billed back to members for costs incurred to purchase, process, and transport product.

Conference fees represent registration fees and sponsorships for the various conferences that are sponsored by Feeding America for the benefit of member organizations. Deferred revenue is attributable to revenue received at year-end for conferences that will be held early in the new fiscal year.

Publications, administrative, and materials fees represent funds received for additional copies of pre-printed publications and materials, as well as from the sale of the Feeding America mailing list to other not-for-profit organizations.

Other revenue recognized in 2008 represents a 3% administrative fee earned by Feeding America for the custody, management, and distribution of the proceeds of a class action lawsuit settlement.

(k) Tax Status

Feeding America is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 509(a) of the Code.

(l) Reclassifications

Certain amounts presented in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

(2) Investments

The cost and fair value of investments at June 30, 2009 and 2008 were as follows:

	2009		2008	
	Cost	Fair value	Cost	Fair value
Government and agency securities	\$ 10,612,862	10,670,472	—	—
Domestic equities	4,464,669	4,802,099	5,095,159	4,700,786
Corporate bonds	4,365,835	4,345,189	7,736,249	7,777,153
Asset-backed securities	3,555,936	3,596,146	—	—
Money market funds	2,163,742	2,163,745	4,501,112	4,501,112
International equities	851,570	950,205	1,137,126	1,077,363
Limited partnership	27,248	27,248	53,278	53,278
	<u>\$ 26,041,862</u>	<u>26,555,104</u>	<u>18,522,924</u>	<u>18,109,692</u>

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

Investment return for the years ended June 30, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Return on investments:		
Interest and dividends	\$ 636,537	884,484
Gains (losses) on investments:		
Net realized losses	(900,853)	(126,357)
Net unrealized gains (losses)	291,801	(513,710)
Net loss on investments	(609,052)	(640,067)
Total return on investments	\$ <u>27,485</u>	<u>244,417</u>

Long-term investments at June 30, 2009 and 2008 include \$925,422 and \$916,574 of a permanent Disaster Relief Fund, respectively. These funds are being held in a segregated investment account and are invested in low-risk instruments.

(3) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used by Feeding America in estimating the fair value of its financial instruments:

- The carrying amount reported in the balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, accounts payable, and accrued expenses.
- Short-term investments and investments: Domestic equities, international equities, government and agency securities, asset-backed securities, corporate bonds, limited partnership, and money market funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.

(b) Fair Value Hierarchy

Feeding America adopted Statement 157 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Statement 157 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Feeding America has the ability to access at the measurement date.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

- Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2009:

	June 30 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 3,666,598	3,666,598	—	—
Short-term investments	16,552,764	1,100,281	15,452,483	—
Investments	10,002,340	9,975,092	27,248	—
Total	\$ 30,221,702	14,741,971	15,479,731	—

(4) Commitments and Contingencies

(a) Operating Leases

On August 10, 2000, Feeding America entered into a noncancelable operating lease for certain office space that commenced on January 1, 2001, after substantial completion of Feeding America's renovation of the premises. Feeding America amended the operating lease during fiscal years 2006 and 2009 to include additional office space commencing on January 1, 2009. The new lease agreement amended the existing lease agreement dated January 1, 2001 and canceled the lease agreement dated January 1, 2006.

On May 11, 2007, Feeding America entered into a noncancelable operating lease for certain office space at One Constitution Avenue, N.E. in Washington, D.C. that commenced on May 1, 2007.

Both leases contain annual escalation clauses, and accordingly, rent expense is recorded on the straight-line basis over the life of the lease. Amounts reported in the accompanying balance sheets as leases payable represent rental expense recognized in excess of lease payments made as of June 30, 2009 and 2008. Lease expense under the terms of all operating leases amounted to

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

approximately \$1,109,267 in 2009 and \$1,081,500 in 2008 and is reported within occupancy expenses.

Future minimum lease payments as of June 30, 2009 are as follows:

Fiscal year ending June 30:		
2010	\$	1,356,363
2011		1,483,351
2012		1,487,849
2013		1,187,594
2014		1,208,960
Thereafter		<u>8,263,301</u>
Total minimum lease payments		\$ <u><u>14,987,418</u></u>

(b) Line of Credit

Feeding America has a \$5,000,000 secured line of credit from its primary bank that bears interest at prime minus 0.50%. The line of credit is secured by an asset management investment account held at a broker-dealer company. There were no borrowings outstanding under the line of credit at June 30, 2009 and 2008. The line of credit expires on September 30, 2009.

(c) Litigation

Feeding America is named in various lawsuits arising in the ordinary course of business. The ultimate resolution of these lawsuits, including any related financial effects on Feeding America, is currently unknown. Feeding America has not provided for any potential future losses arising from the resolution of these matters in the accompanying financial statements. Despite the inherent uncertainties of litigation, management does not believe that the lawsuits will have a material adverse impact on the financial condition of Feeding America at this time.

(5) Temporarily Restricted Funds

Donor restrictions on temporarily restricted net assets consist of the following at June 30, 2009 and 2008:

		<u>2009</u>	<u>2008</u>
Member services	\$	6,454,872	7,686,121
Management and general		2,075,660	9,500,000
Public programs		1,128,678	1,773,796
Research		—	545,000
Food sourcing and distribution		<u>1,234,400</u>	<u>11,475,269</u>
Total temporarily restricted funds	\$	<u><u>10,893,610</u></u>	<u><u>30,980,186</u></u>

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

(6) Endowments

Effective July 1, 2008, Feeding America adopted the provisions of FSP 117-1. FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and also required disclosures about endowments funds, both donor-restricted endowment funds and board-designated endowment funds.

Feeding America's endowment consists of approximately 12 individual funds established for a variety of purposes including donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	—	1,427,434	1,427,434
Board-designated reserve funds	6,708,820	—	—	6,708,820
Disaster relief funds	925,422	—	—	925,422
Total endowment net assets	\$ <u>7,634,242</u>	<u>—</u>	<u>1,427,434</u>	<u>9,061,676</u>

Endowment net assets consist of the following at June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	—	1,418,357	1,418,357
Board-designated reserve funds	6,986,797	—	—	6,986,797
Disaster relief funds	916,575	—	—	916,575
Total endowment net assets	\$ <u>7,903,372</u>	<u>—</u>	<u>1,418,357</u>	<u>9,321,729</u>

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 7,903,372	—	1,418,357	9,321,729
Investment return	(303,010)	—	21,189	(281,821)
Transfer to create board-designated funds	236,370	—	—	236,370
Contributions	—	—	32,000	32,000
Appropriation of endowment assets for expenditure	(202,490)	—	(44,112)	(246,602)
Endowment net assets, June 30, 2009	<u>\$ 7,634,242</u>	<u>—</u>	<u>1,427,434</u>	<u>9,061,676</u>

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2007	\$ 7,021,410	—	1,435,370	8,456,780
Investment return	(126,616)	—	(39,013)	(165,629)
Transfer to create board-designated funds	1,178,426	—	—	1,178,426
Contributions	—	—	22,000	22,000
Appropriation of endowment assets for expenditure	(169,848)	—	—	(169,848)
Endowment net assets, June 30, 2008	<u>\$ 7,903,372</u>	<u>—</u>	<u>1,418,357</u>	<u>9,321,729</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Feeding America to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in permanent restricted net assets were \$1,500 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the board of directors. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as increase in permanent restricted net assets. There were no such deficiencies as of June 30, 2008.

Return Objectives and Risk Parameters

Feeding America has adopted investment and spending policies for endowments assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of Dow Jones Wilshire 5000 Index, the MSCI EAFE Index, the Dow Jones-AIG

FEEDING AMERICA

Notes to Financial Statements

June 30, 2009 and 2008

Commodities Index, and the Barclays Capital Aggregate Bond Index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, Feeding America relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Feeding America targets a diversified asset allocation that places emphasis on investments in equities, bonds, and other securities in a 55-35-10 percent ratio to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Feeding America has a policy of appropriating for distribution each year 3% of its endowment funds' average fair value over the prior three years through the June 30th preceding the fiscal year in which the distribution is planned. In establishing these policies, Feeding America considered the expected return on its endowment. Accordingly, Feeding America expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

(7) Related-Party Transactions

For the years ended June 30, 2009 and 2008, Feeding America recorded approximately \$6,360,000 and \$3,846,000, respectively, in contributions from companies that have representatives who are members of Feeding America's board of directors. At June 30, 2009 and 2008, Feeding America had \$492,000 and \$550,000 of pledges receivable, respectively, from companies that have representatives who are members of Feeding America's board of directors.

(8) Retirement Plan

Feeding America provides a 401(k) defined contribution plan for substantially all employees. In addition to employee contributions, Feeding America also contributes 6% of each participant's compensation to the plan after the initial 12-month vesting period. Feeding America provides an additional 2% matching contribution if the employee contributes a minimum of 5%. Total pension expense and contributions made by Feeding America for the years ended June 30, 2009 and 2008 were approximately \$897,000 and \$722,000, respectively.