



FEEDING AMERICA

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

FEEDING AMERICA

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KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Feeding America:

Report on the Financial Statements

We have audited the accompanying financial statements of Feeding America, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
October 13, 2017

FEEDING AMERICA
Statements of Financial Position
June 30, 2017 and 2016
(In thousands)

Assets	2017	2016
Current assets:		
Cash	\$ 45,683	40,645
Short-term investments	3,502	3,468
Contributions receivable, net	33,973	26,036
Accounts receivable, net	5,033	5,102
Notes receivable, net	683	160
Other assets	745	505
Total current assets	<u>89,619</u>	<u>75,916</u>
Long-term investments	29,157	20,329
Contributions receivable, net	20,486	11,472
Notes receivable, net	—	638
Other assets	23	23
Furniture, software and equipment, net of accumulated depreciation of \$4,458 and \$3,763 in 2017 and 2016, respectively	5,992	3,450
Total assets	<u>\$ 145,277</u>	<u>111,828</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,557	12,161
Deferred revenue	1,482	1,016
Other obligations	79	77
Current portion of leases payable	340	296
Total current liabilities	<u>14,458</u>	<u>13,550</u>
Leases payable, less current portion	1,197	1,537
Other obligations	622	975
Total liabilities	<u>16,277</u>	<u>16,062</u>
Net assets:		
Unrestricted	35,206	31,794
Temporarily restricted	91,931	62,139
Permanently restricted	1,863	1,833
Total net assets	<u>129,000</u>	<u>95,766</u>
Total liabilities and net assets	<u>\$ 145,277</u>	<u>111,828</u>

See accompanying notes to financial statements.

FEEDING AMERICA

Statements of Activities

Years ended June 30, 2017 and 2016

(In thousands)

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Public support and revenue:								
Public support:								
Individual contributions	\$ 37,613	725	—	38,338	34,291	2,839	—	37,130
Corporate contributions	28,653	32,969	—	61,622	17,399	29,412	—	46,811
Foundations	1,343	8,503	—	9,846	397	219	—	616
Corporate promotions	16,623	21,737	—	38,360	23,360	11,849	—	35,209
Total fundraising	84,232	63,934	—	148,166	75,447	44,319	—	119,766
Donated goods and services	2,543,586	—	—	2,543,586	2,288,551	—	—	2,288,551
Total public support	2,627,818	63,934	—	2,691,752	2,363,998	44,319	—	2,408,317
Revenue:								
Member fees	4,884	—	—	4,884	4,291	—	—	4,291
Conference fees	1,444	—	—	1,444	1,278	—	—	1,278
Other revenue	1,085	—	—	1,085	2,174	—	—	2,174
Food procurement revenue	65,957	—	—	65,957	62,762	—	—	62,762
Investment income	23	—	—	23	16	—	—	16
Net assets designated for operations	634	—	—	634	—	—	—	—
Net assets released from restriction	33,562	(33,562)	—	—	35,268	(35,268)	—	—
Total public support and revenue	2,735,407	30,372	—	2,765,779	2,469,787	9,051	—	2,478,838
Expenses:								
Program services:								
Member services	53,059	—	—	53,059	54,751	—	—	54,751
Food procurement	2,632,594	—	—	2,632,594	2,365,556	—	—	2,365,556
Public awareness and education	5,552	—	—	5,552	5,411	—	—	5,411
Policy and advocacy	1,972	—	—	1,972	1,893	—	—	1,893
Programs	4,015	—	—	4,015	2,609	—	—	2,609
Research and analysis	3,153	—	—	3,153	4,391	—	—	4,391
Total program services	2,700,345	—	—	2,700,345	2,434,611	—	—	2,434,611
Supporting services:								
Management and general	8,104	—	—	8,104	7,213	—	—	7,213
Fund development	25,884	—	—	25,884	26,031	—	—	26,031
Total supporting services	33,988	—	—	33,988	33,244	—	—	33,244
Total expenses	2,734,333	—	—	2,734,333	2,467,855	—	—	2,467,855
Increase in net assets as a result of operations	1,074	30,372	—	31,446	1,932	9,051	—	10,983
Nonoperating activities:								
Wills and bequests	1,774	(755)	—	1,019	1,964	755	—	2,719
Individual contributions	—	—	20	20	—	—	20	20
Investment return	1,653	175	10	1,838	61	12	—	73
Other	(455)	—	—	(455)	(175)	—	—	(175)
Net assets designated for operations	(634)	—	—	(634)	—	—	—	—
Changes in net assets	3,412	29,792	30	33,234	3,782	9,818	20	13,620
Net assets at beginning of year	31,794	62,139	1,833	95,766	28,012	52,321	1,813	82,146
Net assets at end of year	\$ 35,206	91,931	1,863	129,000	31,794	62,139	1,833	95,766

See accompanying notes to financial statements.

FEEDING AMERICA
Statement of Functional Expenses
Year ended June 30, 2017
(In thousands)

	Member services			Program services				Supporting services			Total expenses	
	Member services	Food procurement	Total member services	Public awareness and education	Policy and Advocacy	Programs	Research and analysis	Total program services	Management and general	Fund development		Total supporting services
Salaries	\$ 5,751	4,731	10,482	1,834	980	1,523	1,267	16,086	4,249	5,311	9,560	25,646
Benefits and taxes	1,326	1,164	2,490	438	211	421	332	3,892	864	1,396	2,260	6,152
Total salaries and related expenses	7,077	5,895	12,972	2,272	1,191	1,944	1,599	19,978	5,113	6,707	11,820	31,798
Professional services and fees	1,593	789	2,382	1,365	474	1,235	1,195	6,651	1,292	6,700	7,992	14,643
Telecommunications	73	60	133	22	10	21	20	206	43	71	114	320
Advertising	2	—	2	1,307	—	570	1	1,880	—	1,702	1,702	3,582
Postage and shipping	11	4	15	3	2	3	1	24	6	4,315	4,321	4,345
Disaster purchases and transportation	—	845	845	—	—	—	—	845	—	—	—	845
Food sourcing and transportation	—	65,368	65,368	—	—	—	—	65,368	—	—	—	65,368
Occupancy	240	200	440	132	81	118	79	850	362	427	789	1,639
Insurance	24	18	42	12	7	11	7	79	33	39	72	151
Equipment and maintenance	95	27	122	13	8	12	10	165	59	43	102	267
Printing and production	173	15	188	91	1	15	9	304	117	4,607	4,724	5,028
Travel and business meetings	1,345	477	1,822	87	126	261	166	2,462	335	356	691	3,153
Software expense	341	311	652	40	10	19	21	742	181	804	985	1,727
Member grants	41,968	14,673	56,641	—	—	—	—	56,641	—	—	—	56,641
Other	72	40	112	33	40	(212)	32	5	514	26	540	545
Depreciation	41	304	345	173	12	17	12	559	57	79	136	695
Total expenses before donated goods and services	53,055	89,026	142,081	5,550	1,962	4,014	3,152	156,759	8,112	25,876	33,988	190,747
Donated goods and services	4	2,543,568	2,543,572	2	10	1	1	2,543,586	(8)	8	—	2,543,586
Total	\$ 53,059	2,632,594	2,685,653	5,552	1,972	4,015	3,153	2,700,345	8,104	25,884	33,988	2,734,333
Percent of total expenses	1.94 %	96.28 %	98.22 %	0.20 %	0.07 %	0.15 %	0.12 %	98.76 %	0.30 %	0.95 %	1.24 %	100.00 %

See accompanying notes to financial statements.

FEEDING AMERICA
Statement of Functional Expenses
Year ended June 30, 2016
(In thousands)

	Program services							Supporting services				
	Member services	Food procurement	Total member services	Public awareness and education	Policy and Advocacy	Programs	Research and analysis	Total program services	Management and general	Fund development	Total supporting services	Total expenses
Salaries	\$ 4,965	4,464	9,429	1,577	953	1,124	1,544	14,627	3,805	5,617	9,422	24,049
Benefits and taxes	1,175	1,091	2,266	376	219	295	379	3,535	801	1,344	2,145	5,680
Total salaries and related expenses	6,140	5,555	11,695	1,953	1,172	1,419	1,923	18,162	4,606	6,961	11,567	29,729
Professional services and fees	2,962	882	3,844	1,371	335	311	1,942	7,803	1,160	7,264	8,424	16,227
Telecommunications	63	81	144	20	14	17	35	230	44	75	119	349
Advertising	—	—	—	1,294	14	428	—	1,736	3	1,464	1,467	3,203
Postage and shipping	9	5	14	2	3	2	3	24	18	4,318	4,336	4,360
Disaster purchases and transportation	—	389	389	—	—	—	—	389	—	—	—	389
Food sourcing and transportation	—	62,157	62,157	—	—	—	—	62,157	—	—	—	62,157
Occupancy	247	209	456	133	112	79	128	908	331	395	726	1,634
Insurance	24	18	42	11	9	7	11	80	28	33	61	141
Equipment and maintenance	85	30	115	14	9	9	15	162	37	43	80	242
Printing and production	232	37	269	309	2	32	18	630	72	4,886	4,958	5,588
Travel and business meetings	1,369	528	1,897	86	149	203	242	2,577	232	377	609	3,186
Software expense	268	95	363	19	3	5	63	453	237	33	270	723
Member grants	41,429	8,793	50,222	—	—	—	—	50,222	—	—	—	50,222
Other	53	37	90	18	40	73	(12)	209	296	82	378	587
Depreciation	49	155	204	175	18	13	21	431	55	81	136	567
Total expenses before donated goods and services	52,930	78,971	131,901	5,405	1,880	2,598	4,389	146,173	7,119	26,012	33,131	179,304
Donated goods and services	1,821	2,286,585	2,288,406	6	13	11	2	2,288,438	94	19	113	2,288,551
Total	\$ 54,751	2,365,556	2,420,307	5,411	1,893	2,609	4,391	2,434,611	7,213	26,031	33,244	2,467,855
Percent of total expenses	2.22 %	95.85 %	98.07 %	0.22 %	0.08 %	0.11 %	0.18 %	98.65 %	0.29 %	1.05 %	1.35 %	100.00 %

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets	\$ 33,234	13,620
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	695	567
Provision on uncollectible notes and contribution receivable	485	(19)
Deferred lease obligation	(296)	(269)
Restricted contributions	(20)	(775)
Net assets released from restrictions	34,317	35,268
Net realized and unrealized (gains) losses on investments	(1,215)	341
Contributions designated for long-term investment	(1,774)	(1,964)
Changes in operating assets and liabilities:		
Contributions receivable	(17,209)	(9,500)
Accounts receivable and other assets	(171)	(1,304)
Accounts payable and accrued expenses	396	(10,239)
Deferred revenue	466	(783)
Other obligations	(351)	474
Net cash provided by operating activities	<u>48,557</u>	<u>25,417</u>
Cash flows from investing activities:		
Purchase of investments	(7,748)	(584)
Sale or maturity of investments	101	134
Acquisition of furniture, software and equipment	(3,234)	(1,924)
Issuance of notes receivable to members	(115)	(305)
Notes receivable repayments	—	38
Net cash used in investing activities	<u>(10,996)</u>	<u>(2,641)</u>
Cash flows from financing activities:		
Contributions designated for long-term investment	1,774	1,964
Restricted contributions	20	775
Net assets released from restrictions	(34,317)	(35,268)
Net cash used in financing activities	<u>(32,523)</u>	<u>(32,529)</u>
Net change in cash	5,038	(9,753)
Cash at beginning of year	<u>40,645</u>	<u>50,398</u>
Cash at end of year	\$ <u>45,683</u>	<u>40,645</u>

See accompanying notes to financial statements.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(1) Organization and Purpose

Feeding America (Organization) is the nation's leading domestic hunger-relief charity. The mission of Feeding America is to feed America's hungry through a nationwide network of member food banks and engage the country in the fight to end hunger. The network is composed of approximately 200 food banks, which serves all 50 states, the District of Columbia, and Puerto Rico. Each member food bank is an independent nonprofit organization that enters into a contract with Feeding America. Feeding America's offices are located in Chicago, Illinois, and in Washington, D.C.

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 pursuant to Section 501(a) of the Code.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Use of Estimates

The financial statements of Feeding America have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash

Cash is composed of available cash balances. Feeding America maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Feeding America has not experienced any losses in such accounts and management believes that Feeding America is not exposed to any significant credit risk on cash.

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

Investments in equity and debt securities are reported at fair value. All investment related income, expense, gains and losses are included in the statement of activities. Fair values are primarily determined based on quoted market prices or other market inputs. Interest and dividends on short-term investments are included in operating revenue. Interest and dividends on long-term investments are included in nonoperating activities. All other investment income, including realized and unrealized gains and losses on short-term and long-term investments, is also reported as nonoperating activities. Investment returns on donor-restricted endowment funds are recorded to temporarily restricted net assets. Management fees on investments are recorded as a reduction to investment income.

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Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Feeding America invests in various investment securities including U.S. government and agency securities, domestic equity mutual funds, corporate bonds, fixed-income mutual funds, money market funds, international equity mutual funds, hedge fund of funds, and limited partnerships. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of Feeding America's investments could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Feeding America records its investments under Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, 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. ASC Topic 820 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 4).

Feeding America applies the measurement provisions of ASC Topic 820 to certain investments in mutual funds and alternative investments that do not have readily determinable fair values. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent. Interests in mutual funds and alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2017 and 2016, Feeding America had no plans or intentions to sell investments at amounts different from NAV.

(d) Contributions Receivable

Feeding America reports unconditional promises to give as contributions. If outstanding contributions are expected to be collected in less than one year, they are recorded at the estimated amount to be ultimately realized. If outstanding contributions 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. Contributions receivable amounts due in excess of one year after June 30, 2017 and 2016 are reflected net of an allowance for uncollectible amounts based on management's judgment, past payment experience, and other relevant factors and have been discounted to net realizable value at a discount rate of 4.25% and 3.50%, respectively.

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Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The fair value of short and long-term contributions receivable at June 30, 2017 and 2016 were as follows:

	<u>Year ended June 30</u>	
	<u>2017</u>	<u>2016</u>
Gross contributions receivable:		
Within one year	\$ 33,973	26,036
Between one and five years	22,602	12,546
Net present value of contributions receivable	(1,287)	(503)
Allowance for uncollectible contributions receivable	<u>(829)</u>	<u>(571)</u>
Contribution receivable, net	<u>\$ 54,459</u>	<u>37,508</u>

(e) Furniture, Software and Equipment

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

Furniture, software and equipment at June 30, 2017 and 2016 were as follows:

	<u>Year ended June 30</u>	
	<u>2017</u>	<u>2016</u>
Computer and office equipment	\$ 292	292
Furniture and fixtures	821	808
Leasehold improvements	2,809	2,809
Software	2,331	1,875
Work-in-progress	<u>4,197</u>	<u>1,429</u>
	10,450	7,213
Accumulated depreciation	<u>(4,458)</u>	<u>(3,763)</u>
Furniture and equipment, net	<u>\$ 5,992</u>	<u>3,450</u>

Work-in-progress primarily relates to two significant technology implementation projects at Feeding America. The first relates to a new Enterprise Resource Planning (ERP) system and the other is a new Client Relationship Management (CRM) system. Both systems are expected to go live in fiscal year 2018.

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Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(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. Annually, the annuity liability is readjusted based upon actuarial projections of future payments over the remaining life expectancy of the donor or their designee. Upon termination, any residual amount is recognized as nonoperating revenue.

(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, 2017 and 2016, Feeding America distributed approximately 1,470 million pounds and 1,369 million pounds, respectively, of donated product received from approximately 230 national donors and their subsidiaries. The approximate average wholesale value of one pound of donated product at the national level, which was determined to be \$1.73 and \$1.67, respectively, during 2017 and 2016, was based upon a study performed by Feeding America. Many of the national donors donate food and grocery products directly to local members. Beginning in 2011, Feeding America entered into written contracts with national donors to distribute grocery products directly to its local members. The pounds distributed to member food banks under these agreements amounted to 1,165 million pounds and 1,043 million pounds as of June 30, 2017 and 2016, respectively. The dollar amount of these pounds distributed to member food banks under these agreements is \$2,015,404 and \$1,741,289, respectively, and is included within donated goods and services in the accompanying financial statements. The pounds that have been directly donated to Feeding America and then distributed to the member food banks amounted to 305 million pounds and 326 million pounds as of June 30, 2017 and 2016, respectively. The dollar amount of these pounds is approximately \$527,840 and \$545,240, respectively, and is included within donated goods and services in the accompanying financial statements. Any remaining donations made directly to local member food banks from national donors with whom Feeding America does not have a written agreement are not included in the accompanying financial statements because Feeding America does not have written agreements with such donors granting Feeding America explicit authority over the distribution of such donated goods and services (note 10).

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 for which fair value can be validated and requiring specific expertise have been reflected in the financial statements at their estimated fair value. In-kind media support is not reflected in the accompanying financial statements (note 2(i)). For the years ended June 30, 2017 and 2016, Feeding America received \$2,543,586 and \$2,288,551 in donated goods 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.

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Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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.

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 typically based on the promotional activity.

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give 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. Temporarily restricted net assets are reclassified to unrestricted net assets upon expiration of donor restrictions and are reported in the statements of activities as net assets released from restrictions. Restrictions expiring on contributions received in the same year result in a reclassification from temporarily restricted to unrestricted revenue.

Feeding America accounts for endowment funds under ASC Subtopic 958-205, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*. ASC Subtopic 958-205 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA). ASC Subtopic 958-205 enhances disclosures related to both donor-restricted and board-designated endowment funds, whether or not the organization is subject to UPMIFA (note 7).

(i) Donated Media (Unaudited)

Feeding America considers donated media as contributions because they are voluntary nonreciprocal transfers from other entities. However, the value of donated media has not been recognized as donated services revenue in fiscal year 2017 or 2016 as management of Feeding America is currently unable to validate the methodologies used to estimate the fair value of donated media. Accordingly, donated media is not recognized as in-kind contribution revenue in the accompanying financial statements given the major uncertainties about the estimated value of donated media. During the period from July 1, 2016 to March 31, 2017 and the year ended June 30, 2016, Feeding America's Public Service Announcement campaign in partnership with Ad Council received \$49,004 and \$73,363, respectively, in donated media support, mainly through radio, television, and outdoor channels, as estimated by the Ad Council.

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Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(j) Operations

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions and the restrictions are not met 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 for business solutions and fees to help defray the cost of the comprehensive quadrennial hunger study among others.

Food procurement revenue is fees paid by member food banks to the National Office to cover the cost of packaging, transportation, and processing donated food or procurement costs associated with Feeding America's grocery and produce programs.

Conference fees represent registration fees and sponsorships for the various conferences that are sponsored by Feeding America for the benefit of member organizations. Conference fees received but not earned as of fiscal year end are recorded as deferred revenue. Other revenue includes funds received from the sale of Feeding America mailing lists to other nonprofit organizations, settlement funds from legal cases to which courts appointed Feeding America as uninformed beneficiary, revenue from sublease agreement, and fees for National Office sponsored training programs.

During the course of business, Feeding America receives agency funds on behalf of member organizations. Agency funds received and distributed to member organizations are not reported as revenue, support, or expenses within the statements of activities as Feeding America lacks variance power to direct the use of the funds. During 2017 and 2016, Feeding America received approximately \$106 and \$95, respectively, in agency funds.

As of June 30, 2017 and 2016, Feeding America accrued expenses of \$3,361 and \$4,215, respectively, of unconditional promises to give for child hunger programs, technology grants, food sourcing, nutrition, mobile pantry and other vehicles, and general operating support that have been awarded to member organizations. For fiscal year 2017, amounts payable within one year are \$3,272 and are included in accounts payable and accrued expenses. Amounts payable within two to five years are \$89 and are included in other noncurrent obligations. For fiscal year 2016, amounts payable within one year are \$3,719 and are included in accounts payable and accrued expenses. Amounts payable within two to five years are \$496 and are included in other noncurrent obligations.

Advertising costs are expensed as incurred.

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(Dollars in thousands)

(k) Income Taxes

Feeding America accounts for uncertain tax positions in accordance with ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. ASC Topic 740 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC Topic 740, Feeding America must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. As of June 30, 2017 and 2016, Feeding America does not have a liability for unrecognized tax benefits.

(l) Functional Allocation of Expenses

The cost of providing the various programs and supporting services is summarized on a functional basis in the statements of functional expenses. Certain costs are allocated among the program and supporting services benefited.

(m) New Accounting Pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method as well as includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for Feeding America for the year ending June 30, 2019. Feeding America has not evaluated the impact of this statement.

In February 2016, FASB issues ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets as assets on the statement of financial position with a corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for nonpublic business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for Feeding America for the year ending June 30, 2020. Feeding America has not evaluated the impact of this statement.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for

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Feeding America for the year ending June 30, 2019. Feeding America has not evaluated the impact of this statement.

(n) Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

(3) Investments

(a) Overall Investment Objective

Feeding America maintains a short-term and long-term investment portfolio. The purpose of the short-term investment portfolio is to provide sufficient liquidity to meet the financial obligations of Feeding America in a timely manner without requiring liquidation of assets from the long-term investment pool. The investment objectives are preservation of capital, liquidity, and optimization of the investment returns.

(b) Allocation of Investment Strategies

Short-term funds are invested in low or risk-free investments with a high degree of liquidity. Investments should have a maturity for a period not to exceed 180 days. The investment managers are allowed to use derivative securities to reduce portfolio risk. Refer to note 7 for long-term portfolio investment objectives and strategies.

The cost and fair value of short and long-term investments at June 30, 2017 and 2016 were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Government and agency securities and mutual funds	\$ 13,872	13,754	6,813	6,841
Money market funds	819	819	698	698
Domestic equity mutual funds	5,667	6,190	5,238	5,438
Corporate bonds and fixed-income mutual funds	4,693	4,673	3,596	3,589
Asset-backed securities and investment funds				
International equity mutual funds	5,519	5,570	6,412	5,667
Hedge fund of funds	1,500	1,617	1,500	1,529
Limited partnership	35	36	35	35
	<u>\$ 32,105</u>	<u>32,659</u>	<u>24,292</u>	<u>23,797</u>

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Feeding America has invested in alternative investments – hedge fund of funds. The funds are primarily invested in global equity markets and private investment funds. There are no additional funding commitments as of June 30, 2017. Feeding America has the ability to withdraw from the alternative investment all or any portion of its capital as of the last business day of each calendar quarter, with at least 60 calendar days' written notice.

Investment return for the years ended June 30, 2017 and 2016 was as follows:

	2017	2016
Return on investments:		
Interest and dividends	\$ 646	430
Gains (losses) on investments:		
Net realized gains (losses)	280	(183)
Net change in unrealized gains (losses)	935	(158)
Net gain (loss) on investments	1,215	(341)
Total return on investments	\$ 1,861	89

Investment returns are included in the accompanying statements of activities for the years ended June 30, 2017 and 2016:

	Year ended June 30	
	2017	2016
Other operating revenue:		
Interest and dividend income	\$ 23	16
Nonoperating gains and losses – investment return	1,653	61
Other changes in temporarily restricted investments:		
Restricted investment income	185	12
Total investment return	\$ 1,861	89

Short-term investments at June 30, 2017 and 2016 include \$129 and \$757, respectively, in a Disaster Relief Fund. Investment fees, included as a reduction of interest and dividends above, were \$101 and \$78 for the years ended June 30, 2017 and 2016, respectively.

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(Dollars in thousands)

(4) 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 statements of financial position for the following approximates fair value because of the short maturities of these instruments: cash, accounts receivable, accounts payable, and accrued expenses.
- Short-term and long-term investments: Domestic equity mutual funds, international equity mutual funds, government and agency securities and mutual funds, international and domestic mutual investment funds, corporate bonds and fixed-income mutual funds, 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.
- Feeding America applies the concepts of ASC Subtopic 820-10 to its mutual funds and alternative investments using NAV as a practical expedient in estimating fair value; however, it is possible that the redemption rights of certain alternative investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the NAV of the funds and consequently the fair value of Feeding America's interest in the fund.

(b) Fair Value Hierarchy

Feeding America follows the guidance of ASC Topic 820 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. ASC Topic 820 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. Level 1 assets include cash that comprises demand deposits with commercial banks, domestic and international equity securities, and money market funds that consist primarily of U.S. Treasury obligations.
- Level 2 inputs 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 2 assets include government and agency securities, corporate bonds, asset-backed securities, and a limited partnership fund.
- Level 3 inputs are unobservable inputs for the asset or liability.

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(Dollars in thousands)

Feeding America adopted, and retrospectively applied, the provisions of ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient.

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, 2017:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash	\$ 45,683	45,683	—	—
Investments:				
Government and agency securities and mutual funds	13,754	8,553	5,201	—
Money market funds	819	—	819	—
Domestic equity mutual funds	6,190	2,853	3,337	—
Corporate bonds and fixed-income mutual funds	4,673	4,257	416	—
International equity mutual funds	5,570	1,434	4,136	—
Limited partnership	36	—	36	—
Subtotal	31,042	\$ 17,097	13,945	—
Hedge fund of funds ¹	1,617			
Total investments	32,659			
Total assets	\$ 78,342			

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(Dollars in thousands)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2016:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash	\$ 40,645	40,645	—	—
Investments:				
Government and agency securities and mutual funds	6,841	3,248	3,593	—
Money market funds	698	12	686	—
Domestic equity mutual funds	5,438	2,925	2,513	—
Corporate bonds and fixed-income mutual funds	3,589	3,589	—	—
International equity mutual funds	5,667	2,313	3,354	—
Limited partnership	35	—	35	—
Subtotal	22,268	\$ 12,087	10,181	—
Hedge fund of funds ¹	1,529			
Total investments	23,797			
Total assets	\$ 64,442			

¹ Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Feeding

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Notes to Financial Statements

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(Dollars in thousands)

America evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. There were no transfers between Level 1, Level 2, or Level 3 for the fiscal year ended June 30, 2017.

(5) Commitments and Contingencies

(a) Operating Leases

On August 14, 2000, Feeding America entered into a noncancelable operating lease for certain office space in Chicago, Illinois that commenced on January 1, 2001, after substantial completion of Feeding America's renovation of the premises. The lease expires in November 2020 and Feeding America has amended the operating lease periodically to include additional office space.

On February 24, 2012, Feeding America entered into a noncancelable operating lease for certain office space at 1150 18th Street, N.W. in Washington, D.C. that commenced on June 1, 2012 and expires in May 2023. Subsequent to the fiscal year end, Feeding America entered into a lease agreement for new office space in Washington, D.C. for an initial term of 10 years and 6 months. The expected occupancy date is in December 2017.

Both existing leases contain annual escalation clauses, and accordingly, rent expense is recorded on the straight-line basis over the life of the respective leases. Amounts reported in the accompanying statements of financial position as leases payable represent rental expense recognized in excess of lease payments made as of June 30, 2017 and 2016. Lease expense under the terms of all operating leases amounted to approximately \$1,587 in 2017 and \$1,586 in 2016 and is reported within occupancy expenses.

In February 2013, Feeding America entered into a sublease agreement with a third party, whereby the third party leased a portion of Feeding America's office space through January 2018. Sublease monthly payments started in July 2013.

Future minimum lease payments as of June 30, 2017 are as follows:

Fiscal year ending June 30:		
2018	\$	1,821
2019		1,854
2020		1,888
2021		996
2022		354
Thereafter		<u>332</u>
Total future minimum lease payments	\$	<u>7,245</u>

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(Dollars in thousands)

Total future minimum sublease payments to be received as of June 30, 2017 are as follows:

Fiscal year ending June 30:		
2018	\$	97

(b) *Line of Credit*

Feeding America has a \$10,000 secured line of credit from its primary bank that bears interest at Wall Street Journal LIBOR Daily Floating Rate, as defined. The line of credit is secured by a general lien on the assets of Feeding America. There were no borrowings outstanding under the line of credit at June 30, 2017 and 2016. The line of credit expires on November 30, 2017.

(c) *Litigation*

From time to time, Feeding America is named in various lawsuits arising in the ordinary course of business. Management is not aware of any asserted lawsuits against Feeding America as of June 30, 2017. Despite the inherent uncertainties of litigation, Feeding America is not aware of any litigatory matters that may have a material adverse impact on the financial condition of Feeding America at this time.

(6) **Temporarily Restricted Net Assets**

Donor restrictions on temporarily restricted net assets consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Member services	\$ 45,870	27,364
Food procurement	31,384	22,739
Public programs	7,669	3,375
Management and general	4,451	5,102
Research and analysis	1,367	2,677
Public awareness and education	783	842
Fund development	208	37
Policy and advocacy	199	3
Total temporarily restricted funds	<u>\$ 91,931</u>	<u>62,139</u>

(7) **Endowments**

Feeding America follows the guidance of ASC Topic 958, *Not-For-Profit Entities*, related to net asset classification and required disclosures of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA.

Feeding America's endowment consists of approximately 13 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

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(Dollars in thousands)

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, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	570	1,863	2,433
Board-designated reserve funds	25,135	—	—	25,135
Compliance reserve	44	—	—	44
Disaster relief funds	129	—	—	129
Total endowment net assets	\$ <u>25,308</u>	<u>570</u>	<u>1,863</u>	<u>27,741</u>

Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	481	1,833	2,314
Board-designated reserve funds	16,632	—	—	16,632
Compliance reserve	55	—	—	55
Disaster relief funds	757	—	—	757
Total endowment net assets	\$ <u>17,444</u>	<u>481</u>	<u>1,833</u>	<u>19,758</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 17,444	481	1,833	19,758
Investment return	1,509	159	10	1,678
Contributions	7,282	—	20	7,302
Appropriated expenditures of endowment assets	(927)	(70)	—	(997)
Endowment net assets, June 30, 2017	\$ <u>25,308</u>	<u>570</u>	<u>1,863</u>	<u>27,741</u>

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(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 17,446	528	1,813	19,787
Investment return	55	9	—	64
Contributions	171	—	20	191
Appropriated expenditures of endowment assets	<u>(228)</u>	<u>(56)</u>	<u>—</u>	<u>(284)</u>
Endowment net assets, June 30, 2016	<u>\$ 17,444</u>	<u>481</u>	<u>1,833</u>	<u>19,758</u>

(a) 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 are reported in unrestricted net assets. Subsequent gains restore the fair value of the assets of the endowment fund to the required level. There were no deficiencies as of June 30, 2017 and 2016.

(b) Return Objectives and Risk Parameters

Feeding America has adopted investment and spending policies for endowment 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 appropriate benchmarks while assuming a moderate level of investment risk.

(c) 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 38-42-20% ratio to achieve its long-term return objectives within prudent risk constraints. Major investment decisions are authorized by the Board's Stewardship Committee, which oversees the investment program in accordance with established guidelines.

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(Dollars in thousands)

(d) 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 June 30 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.

(8) Related-Party Transactions

For the years ended June 30, 2017 and 2016, Feeding America recorded approximately \$36,042 and \$31,015, respectively, in cash and pledges and \$1,370,544 and \$1,342,179 in goods and services from companies that have representatives who are members of Feeding America's Board of Directors. At June 30, 2017 and 2016, Feeding America had \$16,658 and \$13,318 of pledges receivable, respectively, from companies that have representatives who are members of Feeding America's Board.

On May 22, 2014, Feeding America issued a \$750 revolving line of credit to a start-up food bank member for the acquisition of trucks and warehouse equipment. The line of credit bears interest at LIBOR plus 2.00% beginning in year three of the agreement. The agreement expires on December 31, 2017. As of June 30, 2017 and 2016, \$750 and \$638 are outstanding, respectively.

On June 24, 2015, Feeding America issued a \$300 revolving line of credit to a food bank member for operating purposes. The line of credit bears interest at the LIBOR three-month maturity rate plus 2.00% beginning in year three of the agreement. The agreement expired on June 30, 2017 and was extended through a first amendment dated August 30, 2017. The maximum borrowing under the line was reduced to \$160, the expiration date is now June 30, 2019 and outstanding principal is to be repaid on a monthly basis until June 30, 2019. Additionally, no interest is due on any principal through June 30, 2019 and the line will bear interest until maturity at the LIBOR three-month maturity rate plus 2.00% on any thereafter. As of June 30, 2017 and 2016, \$160 is outstanding.

The allowance for doubtful accounts related to the two aforementioned revolving lines of credit are \$227 and \$0, respectively, at June 30, 2017 and 2016.

(9) Retirement Plan

Feeding America provides a 401(k) defined contribution plan (the Plan) for substantially all employees. In addition to employee contributions, Feeding America contributes 3.00% of each participant's compensation to the Plan. Feeding America makes an additional matching contribution of 3.00% if the employee contributes a minimum of 1.00% of their salary to the Plan. These employer contributions are made beginning with the employee's participation in the Plan (the employee's date of hire). Total retirement expense and contributions made by Feeding America for the years ended June 30, 2017 and 2016 were approximately \$1,453 and \$1,324, respectively.

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(10) Direct Donations

During the years ended June 30, 2017 and 2016, the Feeding America Network distributed approximately 1,943 million pounds and 1,889 million pounds, respectively, of food and grocery products. This total includes donations that were distributed directly to member organizations from national donors as well as donations over which Feeding America exercises control. Food and grocery products distributed directly to member organizations, totaling approximately 473 million and 519 million pounds for the years ended June 30, 2017 and 2016, respectively, have not been recognized in the accompanying financial statements as Feeding America did not exercise control over the distribution of these donations.

(11) Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC Topic 855, *Subsequent Events*, Feeding America evaluated events and transactions through October 13, 2017, the date the financial statements were issued, noting no subsequent events requiring recording or disclosure in the financial statements or related notes to the financial statements.