

FEEDING AMERICA

Financial Statements

June 30, 2008 and 2007

(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
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
Feeding America:

We have audited the accompanying balance sheets of Feeding America (formerly known as America's Second Harvest, The Nation's Food Bank Network) as of June 30, 2008 and 2007, 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, 2008 and 2007, 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.

KPMG LLP

October 30, 2008

FEEDING AMERICA

Balance Sheets

June 30, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 4,000,994	5,663,570
Pledges receivable	26,468,255	1,561,276
Receivables and other assets	1,061,799	1,152,083
Total current assets	31,531,048	8,376,929
Investments	18,109,692	14,971,975
Pledges receivable, net	517,105	1,222,480
Software held for relicense	—	67,269
Furniture and equipment, net of accumulated depreciation of \$914,350 and \$581,394 in 2008 and 2007, respectively	715,401	639,267
Total assets	\$ 50,873,246	25,277,920
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,943,678	2,160,559
Deferred revenue	13,866	40,375
Current portion of other obligations	104,002	82,200
Current portion of leases payable	54,104	27,440
Total current liabilities	6,115,650	2,310,574
Other obligations	602,457	311,847
Leases payable	269,746	323,850
Total liabilities	6,987,853	2,946,271
Net assets:		
Unrestricted	11,486,850	10,865,396
Temporarily restricted – hurricane disaster relief	—	3,037,017
Temporarily restricted – all other	30,980,186	6,993,866
Permanently restricted	1,418,357	1,435,370
Total net assets	43,885,393	22,331,649
Total liabilities and net assets	\$ 50,873,246	25,277,920

See accompanying notes to financial statements.

FEEDING AMERICA
Statements of Activities
Years ended June 30, 2008 and 2007

	2008					2007				
	Temporarily restricted				Permanently restricted	Temporarily restricted				Permanently restricted
	Unrestricted	Hurricane disaster relief	All other			Unrestricted	Hurricane disaster relief	All other		
Operating activities:										
Public support and revenue:										
Public support:										
Donated goods and services	\$ 564,591,524	—	—	—	564,591,524	625,515,564	2,522,250	—	—	628,037,814
Individual contributions	20,573,250	7,589	86,069	—	20,666,908	17,389,613	61,249	—	—	17,450,862
Corporate contributions	3,469,877	—	5,247,508	—	8,717,385	7,405,693	767,311	4,534,606	—	12,707,610
Foundation grants	7,682,248	1,001	39,844,597	—	47,527,846	1,610,315	86,141	689,147	—	2,385,603
Corporate promotions	2,652,476	24	827,358	—	3,479,858	2,231,760	80,127	637,146	—	2,949,033
Net assets released from restrictions:										
Satisfaction of program restriction	24,895,688	(3,046,864)	(21,848,824)	—	—	31,131,533	(12,305,464)	(18,826,069)	—	—
Expiration of time restriction	170,000	—	(170,000)	—	—	25,000	—	(25,000)	—	—
Revenue:										
Member fees	2,245,478	—	—	—	2,245,478	2,151,627	—	—	—	2,151,627
Member revenue	7,595,842	—	—	—	7,595,842	7,558,481	—	—	—	7,558,481
Conference fees	427,657	—	—	—	427,657	487,212	—	—	—	487,212
Publications, administrative, and materials fees	463,713	—	—	—	463,713	433,189	—	—	—	433,189
Other revenue	772,275	—	—	—	772,275	—	—	—	—	—
Investment income	845,776	—	(388)	39,096	884,484	1,125,322	—	8,837	36,173	1,170,332
Total public support and revenue	<u>636,385,804</u>	<u>(3,038,250)</u>	<u>23,986,320</u>	<u>39,096</u>	<u>657,372,970</u>	<u>697,065,309</u>	<u>(8,788,386)</u>	<u>(12,981,333)</u>	<u>36,173</u>	<u>675,331,763</u>
Expenses:										
Program services:										
Member services	586,639,837	—	—	—	586,639,837	640,824,747	—	—	—	640,824,747
Hurricane disaster relief	3,046,864	—	—	—	3,046,864	12,305,464	—	—	—	12,305,464
Supply chain services	20,272,508	—	—	—	20,272,508	21,040,311	—	—	—	21,040,311
Product development	1,284,518	—	—	—	1,284,518	1,098,348	—	—	—	1,098,348
Public awareness and education	1,734,521	—	—	—	1,734,521	1,758,247	—	—	—	1,758,247
Public policy	2,634,018	—	—	—	2,634,018	1,970,262	—	—	—	1,970,262
Research and analysis	611,304	—	—	—	611,304	707,950	—	—	—	707,950
Total program services	<u>616,223,570</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>616,223,570</u>	<u>679,705,329</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>679,705,329</u>
Supporting services:										
Management and general	9,091,439	—	—	—	9,091,439	7,226,684	—	—	—	7,226,684
Fund development	10,568,815	—	—	—	10,568,815	9,035,045	—	—	—	9,035,045
Total supporting services	<u>19,660,254</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,660,254</u>	<u>16,261,729</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,261,729</u>
Total expenses	<u>635,883,824</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>635,883,824</u>	<u>695,967,058</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>695,967,058</u>
Increase (decrease) in net assets as a result of operations	501,980	(3,038,250)	23,986,320	39,096	21,489,146	1,098,251	(8,788,386)	(12,981,333)	36,173	(20,635,295)
Nonoperating activities:										
Wills and bequests	681,432	—	—	—	681,432	474,668	—	—	—	474,668
Individual contributions	—	—	—	22,000	22,000	—	—	—	25,000	25,000
Other revenue	—	1,233	—	—	1,233	—	5,493	—	—	5,493
Net realized and unrealized (losses) gains on investments	(561,958)	—	—	(78,109)	(640,067)	1,056,529	—	—	145,769	1,202,298
Loss on disposition of furniture and equipment	—	—	—	—	—	(21,599)	—	—	—	(21,599)
Changes in net assets	621,454	(3,037,017)	23,986,320	(17,013)	21,553,744	2,607,849	(8,782,893)	(12,981,333)	206,942	(18,949,435)
Net assets at beginning of year	10,865,396	3,037,017	6,993,866	1,435,370	22,331,649	8,257,547	11,819,910	19,975,199	1,228,428	41,281,084
Net assets at end of year	<u>\$ 11,486,850</u>	<u>—</u>	<u>30,980,186</u>	<u>1,418,357</u>	<u>43,885,393</u>	<u>10,865,396</u>	<u>3,037,017</u>	<u>6,993,866</u>	<u>1,435,370</u>	<u>22,331,649</u>

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	Hurricane disaster relief	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 and processing	216,180	31,746	14,455,467	—	—	72	—	14,703,465	—	—	—	14,703,465
Purchased product	78,699	402,311	1,139,918	—	—	—	—	1,620,928	—	—	—	1,620,928
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 maintenanc	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
National conference	—	—	—	—	—	—	—	—	—	—	—	—
Workshops	—	—	—	—	—	—	—	—	—	—	—	—
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	17,078,002	2,612,807	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	23,134,423	3,046,864	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	563,429,986	—	717,238	—	—	—	—	564,147,224	444,300	—	444,300	564,591,524
Depreciation	75,428	—	64,104	23,630	22,997	24,436	12,872	223,467	56,579	52,910	109,489	332,956
Total	\$ 586,639,837	3,046,864	20,272,508	1,284,518	1,734,521	2,634,018	611,304	616,223,570	9,091,439	10,568,815	19,660,254	635,883,824
Percent of total expenses	92.26%	0.48%	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

Statement of Functional Expenses

Year ended June 30, 2007

	Program services							Supporting services			Total expenses	
	Member services	Hurricane disaster relief	Supply chain services	Product development	Public awareness and education	Public policy	Research and analysis	Total	Management and general	Fund development		Total
Salaries	\$ 1,770,213	—	1,290,733	778,224	626,752	764,421	299,841	5,530,184	1,998,757	1,192,787	3,191,544	8,721,728
Employee benefits	377,196	—	300,904	71,988	91,978	105,301	65,440	1,012,807	268,197	218,416	486,613	1,499,420
Payroll taxes	136,298	—	124,239	31,706	42,246	53,317	25,828	413,634	117,953	91,108	209,061	622,695
Total salaries and related expenses	2,283,707	—	1,715,876	881,918	760,976	923,039	391,109	6,956,625	2,384,907	1,502,311	3,887,218	10,843,843
Professional services	521,105	59	118,530	304	503,200	531,270	163,729	1,838,197	3,417,138	883,596	4,300,734	6,138,931
Fees for service	462	—	630	—	17,638	103,939	165	122,834	54,417	497,217	551,634	674,468
Professional developmen	20,829	25	6,469	7,132	10,748	3,403	1,262	49,868	20,888	7,151	28,039	77,907
Supplies	110,663	537	10,163	5,867	29,184	8,336	2,003	166,753	58,564	16,926	75,490	242,243
Telecommunication	231,319	—	30,603	14,332	17,315	25,785	4,398	323,752	72,269	37,269	109,538	433,290
Publications/membership	13,280	—	4,774	2,507	4,886	25,167	1,025	51,639	56,032	4,285	60,317	111,956
Public service advertising	—	—	—	—	—	—	—	—	—	430	430	430
Postage	13,630	16	8,029	10,886	56,874	15,051	7,014	111,500	9,669	2,301,211	2,310,880	2,422,380
Transportation and processing	66,945	466,457	13,080,271	—	—	—	—	13,613,673	—	—	—	13,613,673
Purchased product	161,306	5,228,912	5,134,877	—	—	—	—	10,525,095	—	—	—	10,525,095
Occupancy	172,499	—	126,402	72,209	57,551	133,472	31,634	593,767	130,752	117,046	247,798	841,565
Insurance	13,518	—	9,963	5,676	5,536	4,349	2,485	41,527	14,376	9,218	23,594	65,121
Equipment maintenanc	20,347	—	14,973	8,530	6,817	11,050	3,735	65,452	24,242	14,751	38,993	104,445
Print and production	19,464	—	8,005	12,021	157,455	6,096	63,658	266,699	25,508	3,408,149	3,433,657	3,700,356
Travel	558,683	10,939	121,000	55,260	108,376	126,004	13,454	993,716	308,635	195,119	503,754	1,497,470
National conference	370,021	—	—	—	—	—	—	370,021	—	—	—	370,021
Workshops	298,457	—	—	—	—	—	—	298,457	—	—	—	298,457
Special events	10,076	—	969	736	4,161	567	308	16,817	17,954	5,009	22,963	39,780
Interest expense	—	—	—	—	—	—	—	—	11,726	—	11,726	11,726
Software expense	—	—	3,013	—	770	—	—	16,571	25,053	1,295	26,348	42,919
Program grants	11,395,803	4,076,269	19,090	—	—	31,164	—	15,522,326	—	—	—	15,522,326
Miscellaneous	—	—	—	—	—	5,500	—	5,500	124,318	5	124,323	129,823
Total expenses before donated goods and services and depreciator	16,282,114	9,783,214	20,413,637	1,077,378	1,741,487	1,954,192	698,767	51,950,789	6,756,448	9,000,988	15,757,436	67,708,225
Donated goods and services	624,492,689	2,522,250	589,863	—	—	—	—	627,604,802	433,012	—	433,012	628,037,814
Depreciation	49,944	—	36,811	20,970	16,760	16,070	9,183	149,738	37,224	34,057	71,281	221,019
Total	\$ 640,824,747	12,305,464	21,040,311	1,098,348	1,758,247	1,970,262	707,950	679,705,329	7,226,684	9,035,045	16,261,729	695,967,058
Percent of total expenses	92.08%	1.77%	3.02%	0.16%	0.25%	0.28%	0.10%	97.66%	1.04%	1.30%	2.34%	100.00%

See accompanying notes to financial statements.

FEEDING AMERICA

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 21,553,744	(18,949,435)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	332,956	221,019
Deferred lease obligation	(27,440)	(5,268)
Net loss (gain) on investments	640,067	(1,202,298)
Net loss on disposition of furniture and equipment	—	21,599
Contributions restricted for long-term investment	(703,432)	(499,668)
Distribution of software held for relicense	67,269	22,421
Changes in operating assets and liabilities:		
Pledges receivable	(24,201,604)	4,649,416
Other assets	90,284	(116,942)
Accounts payable and accrued expenses	3,783,119	(1,720,658)
Deferred revenue	(26,509)	5,193
Other obligations	312,412	(14,217)
Net cash provided by (used in) operating activities	1,820,866	(17,588,838)
Cash flows from investing activities:		
Purchase of investments	(22,157,465)	(7,970,467)
Sale of investments	18,379,681	4,565,257
Net purchase of furniture and equipment	(409,090)	(199,400)
Net cash used in investing activities	(4,186,874)	(3,604,610)
Net cash provided by financing activities – contributions restricted for long-term investment	703,432	499,668
Net decrease in cash and cash equivalents	(1,662,576)	(20,693,780)
Cash and cash equivalents at beginning of year	5,663,570	26,357,350
Cash and cash equivalents at end of year	\$ 4,000,994	5,663,570

See accompanying notes to financial statements.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

(1) Organization and Purpose

The mission of Feeding America (formerly known as America's Second Harvest, The Nation's Food Bank Network) 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.

(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, 2008 have been discounted to net realizable value at a discount rate of 8.25%. Gross pledges are receivable as follows: 2009 – \$26,468,255; 2010 – \$375,000; and 2011 – \$250,000.

(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.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

(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, 2008 and 2007, Feeding America distributed approximately 378 million pounds and 371 million pounds, respectively, of donated product received from approximately 300 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 \$1.49 during 2008 and \$1.69 during 2007, was based upon a study performed by Feeding America.

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, 2008 and 2007, Feeding America received approximately \$564,600,000 and \$628,000,000 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.

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.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

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.

(i) 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.

Member revenue is that portion of the costs billed back to members for costs incurred to 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. During 2008, Feeding America received approximately \$25.7 million in agency funds on behalf of member food banks in the 24 states named in the settlement. Approximately \$24.6 million, including interest earned, was distributed to member food banks. The amount of agency funds received and distributed in 2008 is not reported as revenue, support or expenses within the accompanying 2008 statement of activities. The remaining amounts to be distributed to member food banks of \$679,369 at June 30, 2008 are included in accounts payable and accrued expenses in the accompanying 2008 balance sheet.

(j) 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.

(k) Reclassifications

Certain amounts presented in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

(2) **Temporarily Restricted Hurricane Disaster Relief Net Assets**

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 is being utilized to accumulate and distribute donor contributions restricted for hurricane relief purposes.

(a) *Donated Food and Grocery Products*

A number of organizations donated food and grocery products to Feeding America in response to Hurricane Katrina and subsequent hurricanes during the 2005 hurricane season. Included in donated goods and services for 2007 are 1,487,312 pounds of donated product for hurricane relief with a value of \$2,513,557, and donated freight with a value of \$8,692. The approximate average wholesale value of one pound of donated product for hurricane relief, which was determined to be \$1.69 in 2007, was based upon a study performed by Feeding America. There were no donations for Hurricane Katrina relief efforts in 2008.

(b) *Committed Expenditures*

Feeding America has committed to the purchase and transportation of food and grocery products to its member food banks in the gulf coast areas impacted by the 2005 hurricane season. The types of food and grocery products being sent to the gulf coast are those most appropriate and most needed by the victims of the hurricanes. For the years ended June 30, 2008 and 2007, Feeding America purchased 1,237,033 pounds and 11,090,472 pounds, respectively, of nutritious, shelf stable, ready-to-eat products at a cost of \$402,311 and \$5,228,912, respectively. Total transportation costs for both donated and purchased products for the years ended June 30, 2008 and 2007 were \$31,746 and \$380,283, respectively.

Feeding America has committed to providing member food banks in regions impacted by the 2005 hurricanes, and their agencies, with grant funds to assist with relief and recovery efforts. Support grants were awarded for the purposes of general operating support, physical plant repairs, improvements and upgrades, community outreach, and a variety of innovative food distribution programs. For the years ended June 30, 2008 and 2007, \$2,612,807 and \$4,076,269, respectively, of direct support grants have been disbursed to member food banks.

(c) *Investment Income Earned from Donated Funds*

Amounts contributed to the Relief Fund were being held in a segregated interest-bearing account by Feeding America. This type of investment has little risk while ensuring liquidity for continuing relief and recovery needs. Investment income, though not restricted by donors, has been utilized by Feeding America to establish a permanent Disaster Relief Fund.

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.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

(3) Investments

The cost and fair value of investments at June 30, 2008 and 2007 were as follows:

	2008		2007	
	Cost	Fair value	Cost	Fair value
Domestic equities	\$ 5,095,159	4,700,786	4,843,274	5,039,176
International equities	1,137,126	1,077,363	1,445,620	1,904,529
Corporate bonds	7,736,249	7,777,153	6,254,268	6,113,959
Limited partnership	53,278	53,278	53,666	53,666
Money market funds	4,501,112	4,501,112	1,860,645	1,860,645
	\$ 18,522,924	18,109,692	14,457,473	14,971,975

Investment return for the years ended June 30, 2008 and 2007 was as follows:

	2008	2007
Return on long-term investments:		
Interest and dividends	\$ 884,484	1,170,332
(Losses) gains on investments:		
Net realized (losses) gains	(126,357)	295,518
Net unrealized (losses) gains	(513,710)	906,780
Net (loss) gain on investments	(640,067)	1,202,298
Total return on investments	\$ 244,417	2,372,630

(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 year 2006 to include additional office space commencing on 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 DC 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, 2008 and 2007. Lease expense under the terms of all operating leases amounted to approximately \$1,081,500 in 2008 and \$819,800 in 2007 and is reported within occupancy expenses.

Feeding America entered into a noncancelable lease for additional office space that will commence on January 1, 2009. The new lease agreement will amend the existing lease agreement dated January 1, 2001 and will cancel the lease agreement dated January 1, 2006.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

Future minimum lease payments as of June 30, 2008 are as follows:

Fiscal year ending June 30:		
2009	\$	953,842
2010		1,354,582
2011		1,481,571
2012		1,486,068
2013		1,185,813
Thereafter		<u>9,571,968</u>
Total minimum lease payments	\$	<u>16,033,844</u>

(b) Software License Purchase Agreement

In fiscal 2002, Feeding America entered into a software license purchase agreement that grants the organization the option of purchasing licenses for relicense at a contracted discount. As of June 30, 2008, a total of 125 licenses had been purchased and all 125 had been relicensed, at no cost, to network members.

(c) 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 a trust and asset management investment account held at its primary bank. There were no borrowings outstanding at June 30, 2008 and 2007. The line of credit expires on June 30, 2009.

(d) 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.

FEEDING AMERICA

Notes to Financial Statements

June 30, 2008 and 2007

(5) Temporarily Restricted Funds

Donor restrictions on temporarily restricted net assets consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Hurricane disaster relief	\$ —	3,037,017
Food sourcing and distribution	9,896,210	1,036,740
Capability development	367,700	
New York City Granting Project	884,983	644,110
Transportation initiative	1,579,059	705,006
Food stamps initiative	182,024	153,793
Research	545,000	282,908
Kids cafe	649,803	814,803
Back pack	608,951	633,950
Community kitchens and nutrition	333,018	242,400
Marketing initiative	9,500,000	—
Technology initiative	3,626,221	—
Time restricted funds	1,221,673	2,238,198
Other program funds	1,585,544	241,958
Total – all other	<u>30,980,186</u>	<u>6,993,866</u>
Total temporarily restricted funds	<u>\$ 30,980,186</u>	<u>10,030,883</u>

(6) Related-Party Transactions

For the years ended June 30, 2008 and 2007, Feeding America recorded approximately \$3,846,000 and \$3,668,000, respectively, in contributions from companies that have representatives who are members of Feeding America's board of directors. At June 30, 2008 and 2007, Feeding America had \$550,000 and \$300,000 of pledges receivable, respectively, from companies that have representatives who are members of Feeding America's board of directors.

(7) 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, 2008 and 2007 were approximately \$722,000 and \$616,000, respectively.