

FEED MORE, INC.

Financial Statements

June 30, 2010 and 2009

FEED MORE, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Feed More, Inc.
Richmond, Virginia:

We have audited the statements of financial position of Feed More, Inc. (the "Organization") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feed More, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Keiter, Stephens, Hunter, Gary & Sheaves, P.C.

November 17, 2010
Glen Allen, Virginia

FEED MORE, INC.

Statements of Financial Position June 30, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	\$ 7,803,582	\$ 8,460,781
Accounts receivable, net	74,964	90,793
Grants and contributions receivable, net	640,192	1,305,995
Prepaid expenses	40,757	68,684
Inventory	2,003,455	1,501,820
Property and equipment, net	8,893,811	7,566,755
Other assets	8,872	8,541
Endowed investments	<u>2,247,556</u>	<u>1,390,387</u>
	<u>\$ 21,713,189</u>	<u>\$ 20,393,756</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 334,086	\$ 398,714
Accrued expenses	469,918	492,663
Deferred revenue	83,458	77,474
Refundable deposit	-	5,000
Mortgage payable	<u>448,968</u>	<u>572,802</u>
Total liabilities	<u>1,336,430</u>	<u>1,546,653</u>
Net assets:		
Unrestricted net assets	17,206,670	14,732,449
Temporarily restricted net assets	1,013,784	1,958,599
Permanently restricted net assets	<u>2,156,305</u>	<u>2,156,055</u>
Total net assets	<u>20,376,759</u>	<u>18,847,103</u>
	<u>\$ 21,713,189</u>	<u>\$ 20,393,756</u>

See accompanying notes to the financial statements.

FEED MORE, INC.

Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Program fees	\$ 984,272	\$ -	\$ -	\$ 984,272
Government fees	1,545,489	-	-	1,545,489
Government grants	2,506	215,425	-	217,931
Membership fees	31,385	-	-	31,385
Board donations	114,282	-	-	114,282
Individual donations	1,322,582	2,737	250	1,325,569
Direct mail contributions	2,213,055	-	-	2,213,055
Civic organization contributions	657,921	31,785	-	689,706
Foundation grants and contributions	1,192,388	325,000	-	1,517,388
Corporate and other contributions	671,018	224,524	-	895,542
Special events, net of \$64,978 of expenses	604,211	-	-	604,211
Miscellaneous income	6,669	-	-	6,669
Interest and dividends	57,569	42,090	-	99,659
Donated foods received	18,922,054	-	-	18,922,054
	28,325,401	841,561	250	29,167,212
Total revenues and other support				
	28,325,401	841,561	250	29,167,212
Amounts released from restrictions	1,858,074	(1,858,074)	-	-
Expenses:				
Program services	25,284,393	-	-	25,284,393
Management and general	704,779	-	-	704,779
Fund-raising	1,688,316	-	-	1,688,316
	27,677,488	-	-	27,677,488
Total expenses				
	27,677,488	-	-	27,677,488
Unrealized and realized (loss) gain on investments	(272)	71,698	-	71,426
Loss on disposal of fixed assets	(35,994)	-	-	(35,994)
Rental income	4,500	-	-	4,500
	2,474,221	(944,815)	250	1,529,656
Increase (decrease) in net assets				
	2,474,221	(944,815)	250	1,529,656
Net assets, beginning of year	14,732,449	1,958,599	2,156,055	18,847,103
Net assets, end of year	\$ 17,206,670	\$ 1,013,784	\$ 2,156,305	\$ 20,376,759

See accompanying notes to the financial statements.

FEED MORE, INC.

Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Program fees	\$ 948,437	\$ -	\$ -	\$ 948,437
Government fees	1,221,369	-	-	1,221,369
Government grants	60,531	220,825	-	281,356
Membership fees	32,188	-	-	32,188
Board donations	18,204	-	-	18,204
Individual donations	3,958,145	25,565	2,000	3,985,710
Direct mail contributions	2,099,356	100	-	2,099,456
Civic organization contributions	696,821	64,570	-	761,391
Foundation grants and contributions	980,029	184,650	-	1,164,679
Corporate and other contributions	658,572	119,286	-	777,858
Special events, net of \$59,015 of expenses	226,051	-	-	226,051
Miscellaneous income	8,301	-	-	8,301
Interest and dividends	49,752	70,806	-	120,558
Donated foods received	<u>16,134,448</u>	<u>-</u>	<u>-</u>	<u>16,134,448</u>
Total revenues and other support	<u>27,092,204</u>	<u>685,802</u>	<u>2,000</u>	<u>27,780,006</u>
Amounts released from restrictions	<u>746,380</u>	<u>(746,380)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program services	21,230,730	-	-	21,230,730
Management and general	564,678	-	-	564,678
Fund-raising	<u>1,733,472</u>	<u>-</u>	<u>-</u>	<u>1,733,472</u>
Total expenses	<u>23,528,880</u>	<u>-</u>	<u>-</u>	<u>23,528,880</u>
Unrealized loss on investments	(1,643)	(318,589)	-	(320,232)
Gain on sale of fixed assets	1,962	-	-	1,962
Rental income, net of \$78,862 of expenses	<u>16,267</u>	<u>-</u>	<u>-</u>	<u>16,267</u>
Increase (decrease) in net assets	<u>4,326,290</u>	<u>(379,167)</u>	<u>2,000</u>	<u>3,949,123</u>
Net assets, beginning of year	<u>10,406,159</u>	<u>2,337,766</u>	<u>2,154,055</u>	<u>14,897,980</u>
Net assets, end of year	<u>\$ 14,732,449</u>	<u>\$ 1,958,599</u>	<u>\$ 2,156,055</u>	<u>\$ 18,847,103</u>

See accompanying notes to the financial statements.

FEED MORE, INC.

Statement of Functional Expenses Year Ended June 30, 2010

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries	\$ 2,757,708	\$ 468,177	\$ 359,336	\$ 3,585,221
Payroll taxes	219,563	35,625	27,640	282,828
Employee benefits	<u>472,072</u>	<u>66,812</u>	<u>68,940</u>	<u>607,824</u>
Total salaries and related benefits	3,449,343	570,614	455,916	4,475,873
Advertising	352	60	81,075	81,487
Agency grants	56,163	-	-	56,163
Bank fees	114	3,731	49,658	53,503
Computer expenses	58,857	16,599	98,200	173,656
Staff training	14,646	20,996	9,848	45,490
Dues and subscriptions	24,427	3,185	2,518	30,130
Community training	2,541	29	-	2,570
Freight	112,269	-	-	112,269
Food purchases	1,669,101	-	-	1,669,101
Gas and oil	75,256	-	-	75,256
Insurance	54,547	642	-	55,189
Interest	12,952	413	1,022	14,387
Mailing house services	50,683	-	708,317	759,000
Merger expenses	3,950	-	-	3,950
Miscellaneous	51,843	5,326	4,279	61,448
Office supplies	23,643	7,450	10,174	41,267
Off-site storage	10,417	-	-	10,417
Pest control	5,264	-	-	5,264
Postage	22,413	6,904	26,336	55,653
Professional fees	10,202	35,499	110,775	156,476
Printing and publications	4,654	191	71,433	76,278
Rent - equipment	21,693	1,920	395	24,008
Repairs and maintenance	241,285	4,008	10,957	256,250
Security	8,834	-	-	8,834
Supplies	211,345	1,221	1,561	214,127
Taxes and licenses	16,242	-	-	16,242
Telephone	39,095	5,620	6,786	51,501
Temporary labor	34,510	606	21,840	56,956
Trash disposal	24,432	-	-	24,432
Transportation	33,622	8,775	902	43,299
Utilities	<u>146,519</u>	<u>2,699</u>	<u>6,676</u>	<u>155,894</u>
Total expenses before depreciation, donated foods distributed, and food destroyed	6,491,214	696,488	1,678,668	8,866,370
Depreciation	481,899	8,291	9,648	499,838
Donated foods distributed	18,040,944	-	-	18,040,944
Food destroyed	<u>270,336</u>	<u>-</u>	<u>-</u>	<u>270,336</u>
Total expenses	<u>\$ 25,284,393</u>	<u>\$ 704,779</u>	<u>\$ 1,688,316</u>	<u>\$ 27,677,488</u>

See accompanying notes to the financial statements.

FEED MORE, INC.

Statement of Functional Expenses Year Ended June 30, 2009

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries	\$ 2,355,819	\$ 322,232	\$ 445,056	\$ 3,123,107
Payroll taxes	191,886	25,248	35,101	252,235
Employee benefits	389,181	49,233	74,379	512,793
Total salaries and related benefits	2,936,886	396,713	554,536	3,888,135
Advertising	862	-	70,976	71,838
Bank fees	1,041	3,433	47,769	52,243
Computer expenses	38,738	21,449	80,613	140,800
Staff training	11,126	18,586	8,724	38,436
COOP purchase expense	8,219	-	-	8,219
Dues and subscriptions	24,172	3,507	4,476	32,155
Community training	1,942	827	87	2,856
Freight	83,804	-	-	83,804
Food purchases	997,532	-	-	997,532
Gas and oil	80,795	-	-	80,795
Insurance	55,418	631	-	56,049
Interest	18,965	828	1,476	21,269
Mailing house services	-	-	743,228	743,228
Merger expenses	-	31,270	17,260	48,530
Miscellaneous	39,480	9,122	11,059	59,661
Office supplies	15,210	6,585	7,159	28,954
Pest control	5,793	-	-	5,793
Postage	12,178	5,898	17,795	35,871
Professional fees	16,351	34,051	81,390	131,792
Printing and publications	17,086	1,534	49,323	67,943
Rent - equipment	21,935	1,307	1,462	24,704
Repairs and maintenance	265,270	3,136	5,779	274,185
Security	6,906	-	-	6,906
Supplies	179,466	321	651	180,438
Taxes and licenses	5,410	350	-	5,760
Telephone	35,828	6,924	9,634	52,386
Temporary labor	28,882	1,434	5,905	36,221
Trash disposal	17,311	-	-	17,311
Transportation	29,072	2,778	1,327	33,177
Utilities	144,630	2,934	5,233	152,797
Total expenses before depreciation, donated foods distributed, and food destroyed	5,100,308	553,618	1,725,862	7,379,788
Depreciation	396,839	11,060	7,610	415,509
Donated foods distributed	14,998,723	-	-	14,998,723
Food destroyed	734,860	-	-	734,860
Total expenses	\$ 21,230,730	\$ 564,678	\$ 1,733,472	\$ 23,528,880

See accompanying notes to the financial statements.

FEED MORE, INC.

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Increase in net assets	\$ 1,529,656	\$ 3,949,123
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	499,838	459,216
Loss (gain) on disposal of fixed assets	35,994	(1,962)
Unrealized and realized (gain) loss on investments	(71,426)	320,232
Increase in in-kind inventories	(501,635)	(546,243)
Changes in operating assets and liabilities:		
Accounts receivable, net	15,829	60,379
Grants and contributions receivable, net	665,803	269,012
Prepaid expenses	27,927	(48,356)
Other assets	(331)	1,840
Accounts payable	(64,628)	76,358
Accrued expenses	(22,745)	62,185
Deferred revenue	5,984	(10,399)
Refundable deposit	(5,000)	-
Cash provided by operating activities	2,115,266	4,591,385
Cash flows from investing activities:		
Purchase of property and equipment	(1,862,888)	(383,134)
Purchases and sales of investments, net	(785,743)	(46,936)
Cash used in investing activities	(2,648,631)	(430,070)
Cash flows from financing activities:		
Principal payments on mortgage payable	(123,834)	(105,500)
Net (decrease) increase in cash and cash equivalents	(657,199)	4,055,815
Cash and cash equivalents, beginning of year	8,460,781	4,404,966
Cash and cash equivalents, end of year	\$ 7,803,582	\$ 8,460,781
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 14,387	\$ 32,722

See accompanying notes to the financial statements.

FEED MORE, INC.

Notes to Financial Statements

1. **Organization:**

Effective July 1, 2008, Feed More, Inc. (the "Organization") was established through a merger of Central Virginia Foodbank, Inc. (Foodbank) and Meals on Wheels serving Central Virginia, Inc. (Meals on Wheels) under the laws of the Commonwealth of Virginia to collect and redistribute food to seniors, people with disabilities, and disadvantaged populations. The Foodbank and Meals on Wheels continue to operate under their existing names supported through contributions and grants in addition to their programs and membership fees.

2. **Summary of Significant Accounting Policies:**

Financial Statement Presentation: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

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

Cash Equivalents: The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents included certificates of deposit of \$6,902,010 as of June 30, 2010 and \$3,733,891 as of June 30, 2009. The certificates of deposit are redeemable on demand and are subject to varying early withdrawal penalties based on simple interest calculations.

Accounts Receivable: Accounts receivables are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. The allowance for doubtful accounts receivable was \$3,000 at June 30, 2010 and 2009.

Pledges Receivables: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

FEED MORE, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Pledges Receivables, Continued: Pledges receivable are reported net of an allowance for uncollectible pledges. The allowance is based on management's estimate of the amount of pledges receivable that will actually be collected. The allowance for uncollectible pledges receivable was \$19,118 at June 30, 2010 and \$19,668 at June 30, 2009. Pledges receivable that are expected to be collected beyond one year are recorded at the present value of estimated future cash flows. The discount was \$3,957 for 2010 and \$24,469 for 2009.

Unconditional promises, which include pledges and grants receivable at their net present value in the year promised, are recognized as unrestricted, temporarily or permanently restricted support as appropriate. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2010, there were two conditional promises to give from local organizations for \$331,785, which are expected to be collected in fiscal year 2011. This amount is not recorded in the financial statements. At June 30, 2009, the Organization did not have any conditional promises.

Property and Equipment: Property and equipment are stated at cost. All donated property and equipment are stated at fair market value at the date of gift. Depreciation is charged to expense over the estimated useful lives of the assets ranging from three to 40 years using the straight-line method. Expenditures for maintenance and repairs are expensed currently, while expenditures for major improvements are capitalized.

Endowed Investments: The Organization's investments are reported at readily determinable fair value in the statement of financial position based on the net asset value reported by the investment company holding such investments. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the accompanying statement of activities.

Inventory: The majority of the Organization's inventory is received from in-kind donations. The inventory is recorded as an asset when received and is valued at estimated fair value based on average value per pound of food. The average value per pound of food is \$1.60 at June 30, 2010 and \$1.58 at June 30, 2009, and is based upon a study performed by Feeding America specifically for aiding foodbanks across the country in valuing their inventories. These estimated fair values are used to determine the value of the products and services the Organization is providing to the community. Due to the nature of this inventory and the fact that it cannot be sold in the market, it will never be converted to cash during the normal business cycle. The value of in-kind inventory was \$1,958,549 as of June 30, 2010 and \$1,347,775 as of June 30, 2009.

FEED MORE, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Inventory, Continued: The remainder of the inventory not received through in-kind donations is purchased. The inventory is valued at the lower of cost or market. The Organization evaluates inventory levels and expected usage on a periodic basis and records valuation allowances as required. The value of purchased inventory was \$44,906 as of June 30, 2010 and \$154,045 as of June 30, 2009.

Deferred Revenue: Deferred revenue represents funds received for use in future periods and will be recognized as earned.

Income Taxes: The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Income Tax Uncertainties: During 2010, the Organization adopted the Financial Accounting Standards Board ("FASB") guidance related to accounting for uncertainty in income taxes, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the Organization's financial statements.

In accordance with the interpretation, the Organization discloses the expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the facts and the Organization's position and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on the Organization's analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. The Organization has completed its assessment and determined that there were no tax positions which would require recognition under the interpretation. The Organization's income tax returns for years since 2007 remain open for examination by tax authorities.

Net Assets: The Organization classifies its net assets into three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted funds include funds that impose no restrictions on the Organization as to their use or purpose. Such funds are expended for charitable purposes as deemed appropriate by the Board of Directors and for operating purposes.

Temporarily restricted funds include funds whose use by the Organization has been limited by donors to a specific time period or purpose. In 2010, temporarily restricted funds include cash and investments of \$696,931; grants and contribution receivables of \$298,355; prepaid expenses of \$18,498. In 2009, temporarily restricted funds include cash and investments of \$1,777,744; grants and contribution receivables of \$144,641; prepaid expenses of \$42,483; less payables of \$6,269 that are primarily restricted for use in a subsequent year for specific purposes, including programmatic expenses and capital improvements.

FEED MORE, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Net Assets, Continued: Permanently restricted funds include gift arrangements that provide that the principal assets of such funds are to be maintained inviolate and in perpetuity. Permanently restricted funds include grants and contribution receivables of \$250,000 for 2010 and \$834,783 for 2009. Endowment income is recorded in unrestricted funds or temporarily restricted funds for charitable or operating purposes to the extent permitted by the Organization's spending policy or as specified in the gift agreement (see Note 12).

Recognition of Contributions and Grants: All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions and grants that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the fiscal year in which the contribution or grant is recognized. 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. Contributions, including unconditional pledges, are recognized in the period received. 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 statement of activities as net assets released from restrictions.

Program Fees: The Foodbank division of the Organization serves as a clearinghouse that solicits, collects, and stores surplus and salvage food and distributes it to its member agencies, which are nonprofit, tax-exempt agencies and organizations that provide meals and emergency food to their clients without charge. Member agencies pay a program fee per pound for products they withdraw from the Foodbank and transportation for the products. These shared program fees amounted to \$826,001 during 2010 and \$748,118 during 2009.

The Meals on Wheels division of the Organization provides free and reduced cost meals to homebound clients. Clients are billed for this service on a sliding scale based on their ability to pay. These client program fees amounted to \$158,271 during 2010 and \$200,319 during 2009.

Contributed Materials and Services: The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would typically have been purchased if not contributed, are recognized in the financial statements. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, campaign solicitations, and various committee assignments, for which no value is recognized.

FEED MORE, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Functional Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising: Advertising costs are expensed as incurred.

Concentration of Credit Risk: Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash and cash equivalents, unsecured receivables, and investments. The Organization maintains its cash and cash equivalent balances in various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Additionally, certain other cash deposits are guaranteed by various U.S. Government agencies. During 2009, the Organization periodically had funds in excess of the insured limits. However, as of June 30, 2010 and 2009, all funds were either guaranteed or insured by a U.S. Government agency.

Grants and contributions receivable are from individuals, corporations and foundations located primarily in central Virginia. The Organization believes its credit risk related to these grants and contributions receivable is limited due to the nature of its donors. The ability to collect receivables is affected by the general economic conditions.

The Organization invests in various investment securities, which are exposed to various risks, such as interest rate, credit, and overall volatility risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would affect the investment balances and the amount reported in the financial statements.

Reclassifications: Certain prior balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through November 17, 2010, the date the financial statements were available for issuance, and has determined that no additional disclosures are necessary.

FEED MORE, INC.

Notes to Financial Statements, Continued

3. Grants and Contributions Receivable:

Grants and contributions receivable consist of the following unconditional promises to give as of June 30:

	2010	2009
Pledges for general operations	\$ 379,454	\$ 515,349
Pledges for capital campaign	283,813	834,783
Gross unconditional promises to give	663,267	1,350,132
Less: Allowance for uncollectible pledges	19,118	19,668
Less: Discount for present value, 4.53%-4.83% in 2010 and 2009	3,957	24,469
	\$ 640,192	\$ 1,305,995
Amounts due in:		
Less than one year	\$ 565,892	\$ 752,220
One to five years	74,300	553,775
Net grants and contributions receivable	\$ 640,192	\$ 1,305,995

4. Property and Equipment:

Property and equipment consisted of the following as of June 30:

	2010	2009
Land	\$ 485,293	\$ 485,293
Building	7,432,057	6,350,945
Automotive	865,396	519,911
Furniture and equipment	2,417,121	2,078,114
Construction in progress	89,932	145,844
	11,289,799	9,580,107
Less accumulated depreciation	2,395,988	2,013,352
Net property and equipment	\$ 8,893,811	\$ 7,566,755

FEED MORE, INC.

Notes to Financial Statements, Continued

5. Endowed Investments:

The cost and market value of endowed investments were as follows at June 30:

	June 30, 2010		June 30, 2009	
	Cost	Market Value	Cost	Market Value
Money market funds	\$ 189,907	\$ 189,907	\$ 96,893	\$ 96,893
Bond funds	956,155	974,504	384,824	352,912
Equity securities	744,975	659,336	340,625	280,828
Mutual funds	<u>466,812</u>	<u>423,809</u>	<u>750,036</u>	<u>659,754</u>
	<u>\$ 2,357,849</u>	<u>\$ 2,247,556</u>	<u>\$ 1,572,378</u>	<u>\$ 1,390,387</u>

The investments held consist of endowment contributions, earnings, and unrealized gains and losses. At June 30, 2010, the investments were held with Charles Schwab Institutional. At June 30, 2009, the investments were held with Charles Schwab Institutional and The Investment Fund for Foundations (see Note 13).

Investment returns are reported as follows for the years ended June 30, 2010 and 2009:

	2010	2009
Interest and dividends	\$ 99,659	\$ 120,558
Net realized/unrealized gain (loss)	<u>71,426</u>	<u>(320,232)</u>
	<u>\$ 171,085</u>	<u>\$ (199,674)</u>

6. Mortgage Payable:

The Organization's mortgage payable was \$448,968 at June 30, 2010 and \$572,802 at June 30, 2009. The mortgage note is payable to a bank, collateralized by real estate, and due in monthly payments of \$11,518 including interest at 2.77%. The note matures December 2013. The future maturities of the mortgage payable as of June 30, 2010 were \$127,401 in 2011, \$130,972 in 2012, \$134,643 in 2013, and \$55,952 in 2014.

FEED MORE, INC.

Notes to Financial Statements, Continued

7. Donated Food and Services Distributed:

The food and non-food products distributed by the Organization are provided from various sources including government contracts, private company and individual donations. In 2010, the total of product handled amounted to 11,815,621 pounds, with usable product of 11,275,590 pounds, which was distributed to approximately 550 member agencies. In 2009, the product handled amounted to 10,175,477 pounds, with usable product of 9,492,863 pounds, which was distributed to approximately 550 member agencies. The distributed pounds, as valued using the methodology described in Note 2 for inventory, totaled \$18,040,944 for the year ended June 30, 2010 and \$14,998,723 for the year ended June 30, 2009.

8. Retirement and 401(K) Plan:

Prior to April 1, 2009, the Organization sponsored a Simplified Employee Plan (the "Plan"). The Plan covered all eligible employees with at least two years of service who were over the age of 18 years. The contributions to the Plan were discretionary. In April 2009, the Plan was terminated and replaced with a Safe-Harbor 401(K) Plan (the "401(K) Plan") which covers all eligible employees with at least one year of service who are over the age of 18 years. The Organization currently has elected to pay a 3% match of gross income for each employee that meets the eligibility requirements. Each employee is 100% vested in the employer match immediately upon remittance. The contributions for both plans were \$188,853 in 2009. In 2010, the Organization's contributions to the Plan amounted to \$157,521.

9. Commitments and Contingencies:

The Organization leased to an unrelated party certain office space through June 30, 2009. The total rental income from this lease for year ended June 30, 2009 was \$95,129.

The Organization leases to an unrelated party certain advertising space on the Organization's building. The lease calls for monthly payments to the Organization of \$500 when advertising displays are maintained. The total rental income from this lease for year ended June 30, 2010 was \$4,500.

The Organization has an operating lease for copiers through April 2012. The lease calls for monthly payments of \$650 for copier use and maintenance.

In 2010, the Organization began to renovate its current facility for the expansion of program and meeting areas. The construction is scheduled to be completed during the fiscal year ending June 30, 2011, at which time depreciation will commence. As of June 30, 2010, the Organization incurred and capitalized in construction in progress \$89,932. The estimated cost to complete the renovation is approximately \$1,375,000.

FEED MORE, INC.

Notes to Financial Statements, Continued

9. Commitments and Contingencies, Continued:

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. Such audits could also result in the grantor prohibiting future funding of such grant. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date or any impact from the revocation of future grant funds

10. Allocation of Joint Costs:

The Organization incurred joint costs of \$890,931 in 2010 and \$847,042 for 2009 for informational materials and activities that included fund-raising appeals. In 2010, of those costs, \$806,086 was allocated to fund-raising expenses, \$77,750 was allocated to program services, and \$7,095 was allocated to management and general expenses. In 2009, of those costs, \$810,346 was allocated to fund-raising expense, \$29,263 was allocated to program services, and \$7,433 was allocated to management and general expense.

11. Line of Credit:

The Organization had a variable rate line of credit with a bank of \$100,000, which expired in December 2009. Amounts borrowed under the line of credit accrued interest at the prime rate plus 1% (4.25% at June 30, 2009). The line of credit was secured by substantially all noncash assets of the Organization, including accounts receivable, pledges receivable, investments, and equipment. There was no balance due on the line of credit at June 30, 2009.

FEED MORE, INC.

Notes to Financial Statements, Continued

12. Endowment Funds:

Feed More, Inc. has two endowment funds. The endowment funds were established for a variety of purposes and are donor-restricted. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Feed More, Inc., after professional consultation, has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds designated by the Board of Directors:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Funds with Deficits: From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or the SPIMFA requires the Organization to retain as a fund of perpetual duration. The Organization did not have any deficiencies in their endowment funds as of June 30, 2010 and 2009.

FEED MORE, INC.

Notes to Financial Statements, Continued

12. Endowment Funds, Continued:

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for some donor-restricted endowment funds that attempt to provide a predictable stream of funding to the organizations endowed by donor-restricted funds as well as programs supported by the endowment funds of Feed More, Inc. at the direction of the Board of Directors. In addition to providing a predictable stream of funding the adopted investment and spending policies also seek to maintain the purchasing power of the endowment assets. Endowment assets include assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the portfolio is structured to attain a rate of return consistent with a conservative, balanced portfolio management approach. This return should be sufficient to cover the Board's spending policy obligations consistent with the risk parameters in the policy.

Some donor-restricted endowment funds restrict annual distributions to net income. The Organization uses the same investment policies and intends to produce the same investment results as mentioned above for these donor-restricted endowment funds.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization has a policy of appropriating for distribution each year up to 5 percent of the endowment funds' average fair value, depending on annual budgetary goals. In establishing this policy, the Organization considered the long-term expected return on the endowments. Accordingly, over the long term the Organization expects the current spending policy to allow the endowments to continue to grow annually. This is consistent with objectives to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return restrictions.

Endowment net asset composition by type of fund was as follows at June 30, 2010:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 341,502	\$ 2,156,305	\$ 2,497,807

FEED MORE, INC.

Notes to Financial Statements, Continued

12. Endowment Funds, Continued:

Endowment net asset composition by type of fund was as follows at June 30, 2009:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 237,083</u>	<u>\$ 2,156,055</u>	<u>\$ 2,393,138</u>

Changes in endowment net assets were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, July 1, 2008	<u>\$ 510,378</u>	<u>\$ 2,154,055</u>	<u>\$ 2,664,433</u>
Investment return (loss):			
Investment income	45,294	-	45,294
Unrealized loss on investments, net	<u>(318,589)</u>	<u>-</u>	<u>(318,589)</u>
Total investment loss	<u>(273,295)</u>	<u>-</u>	<u>(273,295)</u>
New gifts	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Net assets, June 30, 2009	<u>237,083</u>	<u>2,156,055</u>	<u>2,393,138</u>
Investment return:			
Investment income	32,721	-	32,721
Unrealized gain on investments, net	<u>71,698</u>	<u>-</u>	<u>71,698</u>
Total investment return	<u>104,419</u>	<u>-</u>	<u>104,419</u>
New gifts	<u>-</u>	<u>250</u>	<u>250</u>
Net assets, June 30, 2010	<u>\$ 341,502</u>	<u>\$ 2,156,305</u>	<u>\$ 2,497,807</u>

FEED MORE, INC.

Notes to Financial Statements, Continued

13. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. In 2009, the Organization's Level 2 and Level 3 investments are its relevant percentage of investment in a non-publicly traded investment fund with The Investment Fund for Foundations ("TIFF"). In 2010, the Organization only had Level 1 investments.

Assets measured at fair value on a recurring basis at June 30, 2010, include the following:

	Fair Value Using			Assets
	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Endowed investments:				
Money market funds	\$ 189,907	\$ -	\$ -	\$ 189,907
Bond funds	974,504	-	-	974,504
Equity securities	659,336	-	-	659,336
Mutual funds	423,809	-	-	423,809
	2,247,556	-	-	2,247,556
Donated inventory	-	-	1,958,549	1,958,549
Total	\$ 2,247,556	\$ -	\$ 1,958,549	\$ 4,206,105

FEED MORE, INC.

Notes to Financial Statements, Continued

13. Fair Value Measurements, Continued:

Assets measured at fair value on a recurring basis at June 30, 2009, include the following:

	Fair Value Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Endowed investments:				
Money market funds	\$ 96,893	\$ -	\$ -	\$ 96,893
Bond funds	352,912	-	-	352,912
Equity securities	280,828	-	-	280,828
TIFF	263,735	85,907	48,927	398,569
Mutual funds	<u>261,185</u>	<u>-</u>	<u>-</u>	<u>261,185</u>
	1,255,553	85,907	48,927	1,390,387
Donated inventory	<u>-</u>	<u>-</u>	<u>1,347,775</u>	<u>1,347,775</u>
Total	<u>\$ 1,255,553</u>	<u>\$ 85,907</u>	<u>\$ 1,396,702</u>	<u>\$ 2,738,162</u>

The table below sets forth a summary of changes in the fair value of the TIFF investments classified as level 3 assets:

	TIFF
Balance at July 1, 2008	\$ 59,502
Realized loss	(1,369)
Change in unrealized loss	(2,543)
Net purchases (sales)	<u>(6,663)</u>
Balance at June 30, 2009	48,927
Realized gain	180
Change in unrealized gain	7,773
Net purchases (sales)	<u>(56,880)</u>
Balance at June 30, 2010	<u>\$ -</u>

FEED MORE, INC.

Notes to Financial Statements, Continued

13. Fair Value Measurements, Continued:

The table below sets forth a summary of changes in the fair value of the donated inventory classified as level 3 assets:

	<u>Donated Inventory</u>
Balance at July 1, 2008	\$ 946,910
Donated food	16,134,448
Food distributed	(14,998,723)
Food destroyed	<u>(734,860)</u>
Balance at June 30, 2009	1,347,775
Donated food	18,922,054
Food distributed	(18,040,944)
Food destroyed	<u>(270,336)</u>
Balance at June 30, 2010	<u>\$ 1,958,549</u>