

**The Houston Food Bank
and Subsidiary**

Consolidated Financial Statements and
Independent Auditors' Report
for the years ended June 30, 2008 and 2007

Independent Auditors' Report

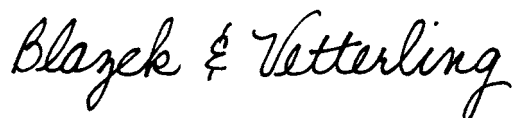
To the Board of Directors of
The Houston Food Bank:

We have audited the accompanying consolidated statements of financial position of the Houston Food Bank and its subsidiary as of June 30, 2008 and 2007 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Houston Food Bank. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Houston Food Bank and its subsidiary as of June 30, 2008 and 2007 and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008, on our consideration of the Houston Food Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



November 14, 2008

The Houston Food Bank and Subsidiary

Consolidated Statements of Financial Position as of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 1,300,094	\$ 637,972
Receivables:		
Due from Texas Commodity Assistance Program	270,817	182,842
Agency accounts receivable	235,314	214,454
Donated inventory	2,011,058	4,527,344
Prepaid expenses and other assets	453,640	170,608
Pledges receivable, net (<i>Note 3</i>)	7,809,420	9,380,144
Investments (<i>Note 4</i>)	9,427,336	8,840,635
Property and equipment, net (<i>Note 5</i>)	<u>2,555,778</u>	<u>2,751,967</u>
TOTAL ASSETS	<u>\$ 24,063,457</u>	<u>\$ 26,705,966</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 232,818	\$ 265,308
Accrued expenses	147,372	97,437
Deferred revenue	<u>115,052</u>	<u>95,909</u>
Total liabilities	<u>495,242</u>	<u>458,654</u>
Net assets:		
Unrestricted (<i>Note 6</i>)	12,255,083	15,705,039
Temporarily restricted (<i>Note 7</i>)	10,366,742	9,595,883
Permanently restricted	<u>946,390</u>	<u>946,390</u>
Total net assets	<u>23,568,215</u>	<u>26,247,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,063,457</u>	<u>\$ 26,705,966</u>

See accompanying notes to consolidated financial statements.

The Houston Food Bank and Subsidiary

Consolidated Statement of Activities for the year ended June 30, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Donated food and household items (Note 8)	\$ 44,415,765			\$ 44,415,765
Contributions (Note 8)	3,649,393	\$ 1,812,176		5,461,569
Agency fees	1,508,401			1,508,401
Government grants and contracts (Note 9)	1,594,231			1,594,231
Investment return (Note 4)	(591,614)			(591,614)
Sales of purchased food	961,284			961,284
Other income	<u>240,837</u>			<u>240,837</u>
Total revenue	51,778,297	1,812,176		53,590,473
Net assets released from restrictions:				
Expenditures for program purposes	<u>1,041,317</u>	<u>(1,041,317)</u>		
Total	<u>52,819,614</u>	<u>770,859</u>		<u>53,590,473</u>
EXPENSES:				
Food distribution program	53,089,847			53,089,847
Management and general	2,135,187			2,135,187
Fundraising	<u>1,044,536</u>			<u>1,044,536</u>
Total expenses	<u>56,269,570</u>			<u>56,269,570</u>
CHANGES IN NET ASSETS	(3,449,956)	770,859		(2,679,097)
Net assets, beginning of year	<u>15,705,039</u>	<u>9,595,883</u>	\$ <u>946,390</u>	<u>26,247,312</u>
Net assets, end of year	<u>\$ 12,255,083</u>	<u>\$ 10,366,742</u>	<u>\$ 946,390</u>	<u>\$ 23,568,215</u>

See accompanying notes to consolidated financial statements.

The Houston Food Bank and Subsidiary

Consolidated Statement of Activities for the year ended June 30, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Donated food and household items (Note 8)	\$ 45,761,782	\$ 156,940		\$ 45,918,722
Contributions (Note 8)	3,262,666	9,919,267		13,181,933
Agency fees	1,928,571			1,928,571
Government grants and contracts (Note 9)	1,847,680			1,847,680
Investment return (Note 4)	972,488			972,488
Sales of purchased food	555,803			555,803
Other income	<u>151,590</u>			<u>151,590</u>
Total revenue	54,480,580	10,076,207		64,556,787
Net assets released from restrictions:				
Expenditures for program purposes	<u>2,417,315</u>	<u>(2,417,315)</u>		
Total	<u>56,897,895</u>	<u>7,658,892</u>		<u>64,556,787</u>
EXPENSES:				
Food distribution program	53,604,425			53,604,425
Management and general	988,450			988,450
Fundraising	<u>973,838</u>			<u>973,838</u>
Total expenses	<u>55,566,713</u>			<u>55,566,713</u>
CHANGES IN NET ASSETS	1,331,182	7,658,892		8,990,074
Net assets, beginning of year	<u>14,373,857</u>	<u>1,936,991</u>	\$ 946,390	<u>17,257,238</u>
Net assets, end of year	<u>\$ 15,705,039</u>	<u>\$ 9,595,883</u>	<u>\$ 946,390</u>	<u>\$ 26,247,312</u>

See accompanying notes to consolidated financial statements.

The Houston Food Bank and Subsidiary

Consolidated Statement of Functional Expenses for the year ended June 30, 2008

	FOOD DISTRIBUTION PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 1,767,825	\$ 861,042	\$ 374,904	\$ 3,003,771
Contract labor	117,263	53,083	15,126	185,472
Payroll taxes and benefits	<u>335,916</u>	<u>178,124</u>	<u>46,774</u>	<u>560,814</u>
Total salaries and related expenses	2,221,004	1,092,249	436,804	3,750,057
Donated food and supplies	46,918,965	20,064	21,777	46,960,806
Purchased food	1,348,360			1,348,360
Depreciation	530,470	66,405	22,749	619,624
Professional fees	112,787	233,782	193,462	540,031
Trucking expense	413,727			413,727
Value Added Processing expense	381,429			381,429
Printing and boxes	48,816	99,515	219,783	368,114
Supplies and office expense	55,032	197,105	78,764	330,901
Warehouse expense	326,369			326,369
Repairs and maintenance	243,912	44,652	1,527	290,091
Utilities and telephone	181,225	48,814	4,692	234,731
Promotional	2,257	227,239	10,498	239,994
Travel	57,357	49,126	34,683	141,166
Insurance	93,240	6,065	13,502	112,807
Volunteer meals	79,559			79,559
Training and seminars	6,161	34,472	1,075	41,708
Agency grants	34,581			34,581
Equipment rental	26,035	5,214	420	31,669
Other	<u>8,561</u>	<u>10,485</u>	<u>4,800</u>	<u>23,846</u>
Total	<u>\$ 53,089,847</u>	<u>\$ 2,135,187</u>	<u>\$ 1,044,536</u>	<u>\$ 56,269,570</u>

See accompanying notes to consolidated financial statements.

The Houston Food Bank and Subsidiary

Consolidated Statement of Functional Expenses for the year ended June 30, 2007

	FOOD DISTRIBUTION PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 1,982,005	\$ 564,384	\$ 275,691	\$ 2,822,080
Contract labor	183,737	23,401	16,598	223,736
Payroll taxes and benefits	<u>381,537</u>	<u>139,569</u>	<u>40,024</u>	<u>561,130</u>
Total salaries and related expenses	2,547,279	727,354	332,313	3,606,946
Donated food and supplies	46,644,096		7,740	46,651,836
Purchased food	1,152,242			1,152,242
Depreciation	516,560	34,551	25,402	576,513
Professional fees	27,190	33,765	198,328	259,283
Trucking expense	374,047			374,047
Value Added Processing expense	357,392			357,392
Printing and boxes	78,511	32,030	287,534	398,075
Supplies and office expense	137,162	78,655	63,219	279,036
Warehouse expense	915,394			915,394
Repairs and maintenance	281,681	10,730	3,537	295,948
Utilities and telephone	249,420	18,299	7,490	275,209
Promotional	2,453	4,919	17,171	24,543
Travel	58,038	24,963	8,805	91,806
Insurance	112,486	6,988	19,274	138,748
Volunteer meals	34,191			34,191
Training and seminars	5,198	14,816	3,025	23,039
Agency grants	9,590			9,590
Equipment rental	98,446	1,343		99,789
Other	<u>3,049</u>	<u>37</u>		<u>3,086</u>
Total	<u>\$ 53,604,425</u>	<u>\$ 988,450</u>	<u>\$ 973,838</u>	<u>\$ 55,566,713</u>

See accompanying notes to consolidated financial statements.

The Houston Food Bank and Subsidiary

Consolidated Statements of Cash Flows for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (2,679,097)	\$ 8,990,074
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	619,624	576,513
Contributions restricted for capital campaign	(1,093,593)	(9,384,728)
Realized and unrealized (gain) loss on investments	833,960	(606,351)
Contributed property and equipment		(25,000)
Changes in operating assets and liabilities:		
Receivables (operating)	(133,835)	528,149
Donated inventory	2,516,286	611,539
Prepaid expenses and other assets	(283,032)	(24,506)
Accounts payable and accrued expenses	17,445	(310,713)
Deferred revenue	19,143	(713)
Net cash provided (used) by operating activities	<u>(183,099)</u>	<u>354,264</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,838,857)	(2,820,737)
Proceeds from sale of investments	5,283,908	2,541,739
Net change in money market funds	(865,712)	(33,173)
Purchases of property and equipment	<u>(423,435)</u>	<u>(1,211,159)</u>
Net cash used by investing activities	<u>(1,844,096)</u>	<u>(1,523,330)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital campaign	<u>2,689,317</u>	<u>12,584</u>
Net cash provided by financing activities	<u>2,689,317</u>	<u>12,584</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	662,122	(1,156,482)
Cash and cash equivalents, beginning of year	<u>637,972</u>	<u>1,794,454</u>
Cash and cash equivalents, end of year	<u>\$ 1,300,094</u>	<u>\$ 637,972</u>

See accompanying notes to consolidated financial statements.

The Houston Food Bank and Subsidiary

Notes to Consolidated Financial Statements for the years ended June 30, 2008 and 2007

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Houston Food Bank is a Texas nonprofit organization founded in 1982 to help feed the hungry by seeking food donations and distributing them to local charitable agencies that care for the needy. The Houston Food Bank is a certified affiliate of Feeding America (formally America’s Second Harvest).

The Houston Food Bank Endowment (the Endowment) was organized in 1990 as a Texas nonprofit organization to receive and maintain contributed funds and to support the Houston Food Bank.

Basis of consolidation – These financial statements include the consolidated statements of financial position, of activities, of functional expenses, and of cash flows for the Houston Food Bank and the Endowment (collectively the Food Bank). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The Houston Food Bank is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi). The Endowment is classified as a Type III supporting organization under §509(a)(3).

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return may be used to support the operations of the Food Bank.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Cash equivalents include highly liquid financial instruments with maturities of three months or less. Cash equivalents held for long-term purposes are classified as investments.

Allowance for uncollectible receivables – An allowance for accounts receivable is provided when management believes the accounts may not be collected in full. The amount of bad debt expense recorded each period and the resulting adequacy of the allowance at the end of each period are determined

using a combination of historical loss experience and customer-by-customer analysis of accounts receivable balances each period.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows.

Inventory consists primarily of canned goods, produce, and durable household goods. Inventory is valued at approximate average wholesale value of one pound of donated product based on the national per pound price as provided by the most recent Second Harvest Product Valuation Survey. The Food Bank records donated food and commodities as inventory and as contributions in these financial statements.

Investments in marketable securities are recorded at fair value.

Property and equipment are recorded at cost, if purchased, or at the fair value at the date of gift, if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 25 years for buildings and 5 years for furniture, equipment, and motor vehicles.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support.

Non-cash contributions – Donated materials and use of facilities are recorded at fair value as contributions when an unconditional commitment is received from a donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation.

Agency fees represent fees paid by agencies for food handling charges and are recognized when shipments of food are made to the agencies.

Sales of purchased food are recognized as revenue when shipments of food are made to agencies.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
Demand deposits	\$ 1,200,094	\$ 537,972
Certificates of deposit	<u>100,000</u>	<u>100,000</u>
Total cash and cash equivalents	<u>\$ 1,300,094</u>	<u>\$ 637,972</u>

Bank deposits exceed federally insured limits of \$100,000 per depositor per institution.

NOTE 3 – PLEDGES RECEIVABLE

The food bank launched the Hunger Can't Wait Capital Campaign in its 2007 fiscal year to grow the Houston Food Bank. The goal of this campaign is to raise \$35 million to purchase a new facility and

build agency infrastructure in order to increase distribution. Through June 30, 2008, total contributions to the campaign were approximately \$10.7 million before discounts.

Pledges receivable consist of the following:

	<u>2008</u>	<u>2007</u>
Total pledges receivable	\$ 8,041,484	\$ 9,759,416
Discount to estimated present value at 4.9%	<u>(232,064)</u>	<u>(379,272)</u>
Pledges receivable, net	<u>\$ 7,809,420</u>	<u>\$ 9,380,144</u>

Pledges receivable at June 30, 2008 are expected to be collected as follows:

2009	\$ 4,074,157
2010	1,972,055
2011	1,895,272
2012	50,000
2013	<u>50,000</u>
Total pledges receivable	<u>\$ 8,041,484</u>

At June 30, 2008, approximately 90% of pledges receivable was due from three donors.

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2008</u>	<u>2007</u>
Equity mutual funds	\$ 3,339,450	\$ 2,164,683
Money market funds	2,025,677	1,159,965
Equity securities	1,750,870	1,782,554
Municipal bonds	1,361,688	982,657
Corporate bonds	525,803	432,112
Certificates of deposit	224,673	523,774
Agency bonds	199,175	1,162,243
Bond mutual funds		511,647
U.S. Treasury securities		<u>121,000</u>
Total investments	<u>\$ 9,427,336</u>	<u>\$ 8,840,635</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return, including earnings on cash and cash equivalents, consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 242,346	\$ 366,137
Net realized and unrealized gain (loss) on investments	<u>(833,960)</u>	<u>606,351</u>
Total investment return	<u>\$ (591,614)</u>	<u>\$ 972,488</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 13,311	\$ 13,311
Buildings	2,604,772	2,577,559
Furniture and equipment	2,848,444	2,560,627
Motor vehicles	<u>1,941,776</u>	<u>1,838,870</u>
Total property and equipment, at cost	7,408,303	6,990,367
Accumulated depreciation	<u>(4,852,525)</u>	<u>(4,238,400)</u>
Property and equipment, net	<u>\$ 2,555,778</u>	<u>\$ 2,751,967</u>

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets are designated for the following purposes:

	<u>2008</u>	<u>2007</u>
Undesignated	\$ 8,216,271	\$ 11,701,784
Board designated:		
Quasi-endowment	3,829,785	3,829,785
Grant programs	<u>209,027</u>	<u>173,470</u>
Total unrestricted net assets	<u>\$ 12,255,083</u>	<u>\$ 15,705,039</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Capital campaign	\$ 9,988,338	\$ 9,216,461
Mobile food pantry	97,000	47,500
Good Neighbor program	78,610	
Kids Café	69,429	44,136
Backpack Buddy Club	52,468	32,191
Disaster relief	25,000	32,722
Operation Frontline	24,146	
Social service outreach	15,000	
Disaster relief food donations	13,490	116,898
Meals and freezers for agencies		78,133
Community Kitchen		15,000
Feeding Children Better		9,842
Other	<u>3,261</u>	<u>3,000</u>
Total temporarily restricted net assets	<u>\$ 10,366,742</u>	<u>\$ 9,595,883</u>

NOTE 8 – NON-CASH CONTRIBUTIONS

Food donations – The majority of food distributed by the Food Bank is received by contribution from general donations and from the USDA. The estimated value of these contributions is recorded in the financial statements as contribution revenue and program expense. The pounds collected are recorded by the Food Bank staff at the time of receipt based on actual weight. The Food Bank reports the value of food received from general donations based on estimated values published in America’s Second Harvest annual Product Valuation Survey. Food donated by the USDA is valued at the USDA’s average commodity prices for the period. The total value of contributed food for the years ended June 30, 2008 and 2007 is as follows:

	2008			2007		
	POUNDS	VALUE PER POUND	AMOUNT	POUNDS	VALUE PER POUND	AMOUNT
General donations	27,412,567	\$1.49	\$40,844,725	24,179,737	\$1.69	\$ 40,863,755
USDA	<u>5,093,334</u>	<u>\$.70</u>	<u>3,571,040</u>	<u>8,249,540</u>	<u>\$.61</u>	<u>5,054,967</u>
Total	<u>32,505,901</u>		<u>\$44,415,765</u>	<u>32,429,277</u>		<u>\$ 45,918,722</u>

Other donations – During 2008, the Food Bank received \$179,444 of other donated goods and services, including \$108,720 of donated warehouse space and related costs, \$17,000 of airline tickets, \$8,000 of speaker fees, and \$45,724 of gift certificates and supplies. During 2007, the Food Bank received \$638,176 of other donated goods and services, including \$556,142 of donated warehouse space and related costs, \$25,300 of fork-lift equipment and related supplies, \$22,405 of electricity utility subsidies, \$17,500 of airline tickets, and \$16,829 of gift certificates and supplies.

NOTE 9 – GOVERNMENT GRANTS AND CONTRACTS

Sources of government grants and contracts are as follows:

	2008	2007
U.S. Department of Agriculture	\$ 1,404,474	\$ 1,582,135
Federal Department of Homeland Security	189,757	203,678
Texas Department of Agriculture		<u>61,867</u>
Total government grants and contracts	<u>\$ 1,594,231</u>	<u>\$ 1,847,680</u>

NOTE 10 – EMPLOYEE BENEFIT PLANS

The Food Bank offers a defined contribution 401(k) benefit plan to qualified employees. The Food Bank matches 50% of an employee’s contribution up to 6% of the employee’s compensation. Contributions made by the Food Bank vest at the end of one year. The Food Bank’s contributions to the plan totaled \$40,998 in 2008 and \$41,988 in 2007.

NOTE 11 – SUBSEQUENT EVENTS

In October 2008, The Food Bank merged with End Hunger Network, Houston (End Hunger) another nonprofit organization. End Hunger is a community-based organization that works collaboratively with

food pantries, soup kitchens, and residential shelters to strengthen hunger-relief programs through collection and distribution of perishable and non-perishable food. The combination of The Food Bank and End Hunger will be accounted for as a pooling of interests. The changes in net assets of the combined organization after elimination of intercompany transactions was \$(3,240,000) in 2008 and \$11,262,000 in 2007.
