

The Houston Food Bank and Subsidiaries

Independent Auditor's Reports and Consolidated Financial Statements

June 30, 2018 and 2017



The Houston Food Bank and Subsidiaries

June 30, 2018 and 2017

Contents

Independent Auditor's Report.....	1
Consolidated Financial Statements	
Statements of Financial Position	3
Statement of Activities for Year Ended June 30, 2018	4
Statement of Activities for Year Ended June 30, 2017	5
Statement of Functional Expenses for Year Ended June 30, 2018	6
Statement of Functional Expenses for Year Ended June 30, 2017	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9
Supplementary Information	
Schedule of Expenditures of Federal Awards.....	27
Schedule of Expenditures of State Awards.....	29
Notes to Schedules of Expenditures of Federal and State Awards	30
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> - Independent Auditor's Report.....	31
Report on Compliance for the Major Federal and State Programs and Report on Internal Control Over Compliance - Independent Auditor's Report	33
Schedule of Findings and Questioned Costs.....	36
Summary Schedule of Prior Audit Findings	40

Independent Auditor's Report

Board of Directors
The Houston Food Bank and Subsidiaries
Houston, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Houston Food Bank and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Houston Food Bank and Subsidiaries as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2017 consolidated financial statements were audited by other auditors, and their report thereon, dated November 16, 2017, expressed an unmodified opinion.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal and state awards for the year ended June 30, 2018, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and in the schedule of expenditures of state awards for the year ended June 30, 2018, as required by the State of Texas *Uniform Grant Management Standards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018, on our consideration of The Houston Food Bank and Subsidiaries' 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 solely 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 effectiveness of The Houston Food Bank and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Houston Food Bank and Subsidiaries' internal control over financial reporting and compliance.

BKD, LLP

Houston, Texas
September 20, 2018

The Houston Food Bank and Subsidiaries

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash	\$ 18,828,975	\$ 1,390,371
Accounts receivable:		
Government grants and contracts	1,991,521	2,476,758
Agency	15,634	133,778
Food and other supplies	15,998,741	9,310,875
Prepaid expenses and other assets	1,221,913	429,791
Operating pledges receivable, net	967,017	1,168,824
Operating investments	2,618,219	2,608,881
Notes receivable	4,763,187	4,763,187
Pledges receivable for a capital campaign, net	1,638,706	2,421,092
Investments internally designated for endowment and quasi-endowment funds	6,741,993	6,114,613
Property and equipment, net	63,987,109	54,059,692
Total assets	\$ 118,773,015	\$ 84,877,862
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,276,111	\$ 2,214,261
Accrued expenses	966,803	835,708
Deferred revenue	-	183,000
Note payable to bank	-	2,763,515
Capital lease payable	3,220,171	-
New market tax credits notes payable, net	6,217,941	6,208,044
Total liabilities	13,681,026	12,204,528
Net Assets		
Unrestricted	101,308,335	67,966,835
Temporarily restricted	2,822,264	3,760,109
Permanently restricted	961,390	946,390
Total net assets	105,091,989	72,673,334
Total liabilities and net assets	\$ 118,773,015	\$ 84,877,862

The Houston Food Bank and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2018

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Donated food	\$ 250,555,289	\$ -	\$ -	\$ 250,555,289
Contributions	28,076,408	48,004,990	15,000	76,096,398
Other in-kind contributions	1,695,081	-	-	1,695,081
Special events	348,753	313,918	-	662,671
Direct donor benefit costs	(128,607)	-	-	(128,607)
Government grants and contracts	8,865,932	-	-	8,865,932
Agency fees	387,116	-	-	387,116
Other grants and contracts	690,080	-	-	690,080
Investment return	675,895	126,173	-	802,068
Freezer lease income	1,544,001	-	-	1,544,001
Sale of purchased food	63,752	-	-	63,752
Gain on sale of property and equipment	54,672	-	-	54,672
Other income	614,176	-	-	614,176
	<u>293,442,548</u>	<u>48,445,081</u>	<u>15,000</u>	<u>341,902,629</u>
Net Assets Released From Restrictions				
Capital expenditures	10,416,536	(10,416,536)	-	-
Expenditures for program purposes	38,690,471	(38,690,471)	-	-
Expiration of time restrictions	275,919	(275,919)	-	-
	<u>49,382,926</u>	<u>(49,382,926)</u>	<u>0</u>	<u>0</u>
Total	<u>342,825,474</u>	<u>(937,845)</u>	<u>15,000</u>	<u>341,902,629</u>
Expenses				
Food distribution program	297,323,497	-	-	297,323,497
Management and general	7,674,306	-	-	7,674,306
Fund-raising	4,486,171	-	-	4,486,171
	<u>309,483,974</u>	<u>0</u>	<u>0</u>	<u>309,483,974</u>
Increase (Decrease) in Net Assets	33,341,500	(937,845)	15,000	32,418,655
Net Assets, Beginning of Year	<u>67,966,835</u>	<u>3,760,109</u>	<u>946,390</u>	<u>72,673,334</u>
Net Assets, End of Year	<u>\$ 101,308,335</u>	<u>\$ 2,822,264</u>	<u>\$ 961,390</u>	<u>\$ 105,091,989</u>

The Houston Food Bank and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Donated food	\$ 169,573,696	\$ -	\$ -	\$ 169,573,696
Contributions	12,722,805	4,718,373	-	17,441,178
Other in-kind contributions	461,756	-	-	461,756
Special events	502,833	253,745	-	756,578
Direct donor benefit costs	(24,965)	(90,823)	-	(115,788)
Government grants and contracts	7,485,006	-	-	7,485,006
Agency fees	2,218,162	-	-	2,218,162
Other grants and contracts	1,312,816	-	-	1,312,816
Investment return	1,094,269	140,888	-	1,235,157
Freezer lease income	925,782	-	-	925,782
Sale of purchased food	867,931	-	-	867,931
Loss on sale of property and equipment	(1,234,301)	-	-	(1,234,301)
Other income	279,538	-	-	279,538
	<u>196,185,328</u>	<u>5,022,183</u>	<u>0</u>	<u>201,207,511</u>
Net Assets Released From Restrictions				
Capital expenditures	5,471,173	(5,471,173)	-	-
Expenditures for program purposes	2,308,518	(2,308,518)	-	-
Expiration of time restrictions	851,703	(851,703)	-	-
	<u>8,631,394</u>	<u>(8,631,394)</u>	<u>0</u>	<u>0</u>
Total	<u>204,816,722</u>	<u>(3,609,211)</u>	<u>0</u>	<u>201,207,511</u>
Expenses				
Food distribution program	197,023,907	-	-	197,023,907
Management and general	4,730,124	-	-	4,730,124
Fund-raising	3,439,739	-	-	3,439,739
	<u>205,193,770</u>	<u>0</u>	<u>0</u>	<u>205,193,770</u>
Changes in Net Assets Before Gain on New Market Tax Credits				
	(377,048)	(3,609,211)	-	(3,986,259)
Gain on New Market Tax Credits	<u>11,603,210</u>	<u>-</u>	<u>-</u>	<u>11,603,210</u>
Increase (Decrease) in Net Assets	11,226,162	(3,609,211)	-	7,616,951
Net Assets, Beginning of Year	<u>56,740,673</u>	<u>7,369,320</u>	<u>946,390</u>	<u>65,056,383</u>
Net Assets, End of Year	<u>\$ 67,966,835</u>	<u>\$ 3,760,109</u>	<u>\$ 946,390</u>	<u>\$ 72,673,334</u>

The Houston Food Bank and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	2018			
	Food Distribution Program	Management and General	Fund-raising	Total
Salaries	\$ 12,483,674	\$ 2,303,589	\$ 1,246,972	\$ 16,034,235
Contract labor and intern stipends	2,414,025	110,893	100,348	2,625,266
Payroll taxes and benefits	2,898,192	489,224	269,991	3,657,407
Total salaries and related expenses	17,795,891	2,903,706	1,617,311	22,316,908
Distributed donated food and supplies	244,988,933	-	47,467	245,036,400
Purchased food	12,577,268	-	-	12,577,268
Depreciation	3,126,761	642,618	76,766	3,846,145
Supplies and office expense	1,912,937	985,024	673,925	3,571,886
Repairs and maintenance	1,914,524	263,011	605	2,178,140
Professional fees and contract services	568,247	1,800,367	1,135,909	3,504,523
Trucking expenses	5,359,214	-	-	5,359,214
Value added processing expenses	1,243,403	-	-	1,243,403
Printing and boxes	485,444	45,928	814,380	1,345,752
Utilities and telephone	775,339	141,080	7,011	923,430
Equipment rental	1,763,419	136,330	6,404	1,906,153
Warehouse expense	1,429,736	5,431	-	1,435,167
Interest	56,945	206,314	-	263,259
Insurance	494,366	66,360	-	560,726
Agency grants	2,263,893	142,348	-	2,406,241
Travel	433,185	45,305	47,297	525,787
Advertising	8,244	207,297	43,148	258,689
Training and seminars	65,525	58,665	10,019	134,209
Other	60,223	24,522	5,929	90,674
Total expenses	\$ 297,323,497	\$ 7,674,306	\$ 4,486,171	309,483,974
Direct donor benefit costs				128,607
Total				\$ 309,612,581

The Houston Food Bank and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	2017			
	Food Distribution Program	Management and General	Fund-raising	Total
Salaries	\$ 9,189,501	\$ 2,111,787	\$ 1,168,016	\$ 12,469,304
Contract labor and intern stipends	586,672	8,614	9,930	605,216
Payroll taxes and benefits	1,656,430	380,603	210,509	2,247,542
 Total salaries and related expenses	 11,432,603	 2,501,004	 1,388,455	 15,322,062
Distributed donated food and supplies	171,513,835	-	-	171,513,835
Purchased food	3,330,821	-	-	3,330,821
Depreciation	2,417,160	182,468	99,602	2,699,230
Supplies and office expense	1,088,743	665,732	648,016	2,402,491
Repairs and maintenance	1,404,957	55,437	71,271	1,531,665
Professional fees and contract services	356,633	655,585	345,262	1,357,480
Trucking expenses	1,157,484	-	-	1,157,484
Value added processing expenses	1,061,520	-	-	1,061,520
Printing and boxes	223,447	59,282	741,321	1,024,050
Utilities and telephone	575,037	131,387	28,601	735,025
Equipment rental	443,937	152,800	9,226	605,963
Warehouse expense	577,114	-	-	577,114
Interest	429,933	32,455	17,716	480,104
Insurance	338,388	19,815	9,038	367,241
Agency grants	365,527	-	-	365,527
Travel	218,611	34,023	17,789	270,423
Advertising	9,598	157,143	54,153	220,894
Training and seminars	17,465	37,004	9,243	63,712
Other	61,094	45,989	46	107,129
 Total expenses	 <u>\$ 197,023,907</u>	 <u>\$ 4,730,124</u>	 <u>\$ 3,439,739</u>	 205,193,770
 Direct donor benefit costs				 <u>115,788</u>
 Total				 <u>\$ 205,309,558</u>

The Houston Food Bank and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Increase in net assets	\$ 32,418,655	\$ 7,616,951
Items not requiring (providing) operating activities cash flows:		
Depreciation of fixed assets	3,846,145	2,699,230
Amortization of debt issuance costs	9,897	4,948
Changes in food and other supplies inventory	(6,687,866)	1,286,071
Contributions restricted for capital campaign	-	(2,203,873)
Contributions restricted for permanently restricted endowment	(15,000)	-
Contribution of long-lived assets	(542,116)	-
Loss on disposal of property and equipment	-	1,234,301
Gain on new market tax credits transactions	-	(11,603,210)
Realized and unrealized gain on investments	(439,464)	(524,839)
Changes in:		
Accounts receivable	603,381	91,174
Pledges receivable	236,137	1,289,935
Prepaid expense and other assets	(792,122)	(72,375)
Accounts payable and accrued expenses	1,192,945	387,109
Deferred revenue	(183,000)	183,000
Net cash provided by operating activities	<u>29,647,592</u>	<u>388,422</u>
Investing Activities		
Purchase of property and equipment	(9,973,180)	(7,984,951)
Proceeds from disposition of investments	1,020,953	2,577,605
Purchase of investments	(880,394)	(2,455,434)
Net change in cash and money market mutual funds held as investments	(337,813)	(19,384)
Issuance of notes receivable	-	(4,763,187)
Proceeds from disposition of property and equipment	54,672	2,104,241
Net cash used in investing activities	<u>(10,115,762)</u>	<u>(10,541,110)</u>
Financing Activities		
Proceeds from contributions restricted for capital campaign	763,056	1,659,614
Proceeds from issuance of new market tax credits notes payable and note payable to bank	-	10,800,000
Principal payments on new market tax credits notes payable and note payable to bank	(2,763,515)	(1,723,985)
Principal payments on capital lease	(92,767)	-
Payment of debt issuance costs	-	(296,904)
Net cash provided by (used in) financing activities	<u>(2,093,226)</u>	<u>10,438,725</u>
Net Increase in Cash	17,438,604	286,037
Cash, Beginning of Year	<u>1,390,371</u>	<u>1,104,334</u>
Cash, End of Year	<u>\$ 18,828,975</u>	<u>\$ 1,390,371</u>
Supplemental Cash Flows Information		
Capital lease liability incurred for purchase of property and equipment	\$ 3,312,938	\$ -
Interest paid	263,259	616,119

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Houston Food Bank and Subsidiaries 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 organization is a certified affiliate of Feeding America.

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

The Mary Barden Keegan Food Fund, Inc. (MBKFF) was organized in 2000 as a Texas nonprofit corporation to receive and maintain contributed funds to support End Hunger Network, Houston (End Hunger) or its successor organization. The Houston Food Bank is the sole member of MBKFF.

HFB QALICB LLC (QALICB) was organized in 2010 as a Texas limited liability company. The Houston Food Bank has a 99.90 percent membership interest and MBKFF has a 0.10 percent membership interest in QALICB. QALICB was organized to acquire and remodel a warehouse facility (the Portwall facility) for use by The Houston Food Bank.

In August 2017, Hurricane Harvey caused widespread flooding and property damage in Texas, including the Houston area, and had a significant impact on the Food Bank's operations including increased revenues and expenses for the year ended June 30, 2018. Contributions designated for disaster relief and operations in fiscal year 2018 resulted in contribution revenues approximately three times higher than in fiscal year 2017. The value of food donations in 2018, including assistance from the Federal Emergency Management Agency (FEMA), was \$81 million higher than the previous year. The Food Bank distributed over 146 million pounds of food in 2018 as compared to 97 million pounds in 2017 and also provided grants to assist our distribution partners to expand their capacity to respond to the community's needs, resulting in 2018 operating expenses which were 33% higher than reported in 2017.

Principles of Consolidation

The consolidated financial statements includes the assets, liabilities, net assets, and activities of The Houston Food Bank and its wholly owned consolidated subsidiaries, the Endowment, MBKFF and QALICB (collectively, "The Food Bank"). All significant intercompany account balances and transactions have been eliminated in the consolidated financial statements.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2018, the Food Bank's cash accounts exceeded federally insured limits per institution by approximately \$18,475,000.

Accounts Receivable

Accounts receivable consists of receivables outstanding at year-end from government grants and contracts. An allowance for accounts receivable and pledges receivable is provided when management determines the balance may not be collected in full. It is The Food Bank's policy to write off receivable against the allowance when management determines the receivable will not be collected. The allowance is determined using a combination of historical loss experience and individual account-by-account analysis of accounts receivable balances each period. It is possible that management's estimate regarding collectability of the balances will change in the near term resulting in a change in the carrying value of accounts receivable. No allowance was recorded as of June 30, 2018 and 2017.

Food and Other Supplies

Food and other supplies consist primarily of canned goods, produce and durable household goods. Donated food supplies are valued at the weighted-average wholesale value of one pound of donated product based on the national per-pound price as provided by the most recent Feeding America Product Valuation Survey. Purchased food is valued at the cost of products purchased as determined by the first-in, first-out method. Food and other supplies also includes items donated by a home improvement store for use by agencies. These items are valued at approximate fair market value on the date of contribution. The Food Bank recognizes donated food, commodities, and other goods as food and other supplies and as contributions in these consolidated financial statements. Food and supplies are recognized as expense when distributed.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are reported 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. The allowance is determined using a combination of historical loss experience and individual account-by-account analysis of pledges receivable

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

balances each period. It is possible that management's estimate regarding collectability of the balances will change in the near term resulting in a change in the carrying value of pledges receivable.

Notes Receivable

Notes receivable are reported at their outstanding principal balance. Notes receivable are considered to be fully collectible, and accordingly, no allowance for doubtful accounts has been provided. In making that determination, management evaluated the financial condition of the borrower, the estimated value of the underlying collateral, and current economic conditions. Interest on notes receivable is recognized over the term of the notes receivable and is calculated using the simple-interest method on principal amounts outstanding.

Investments and Investment Return

Investments are reported at fair value. Investment return is reported in the consolidated statements of activities as an increase in unrestricted net assets unless the use of income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

The Food Bank maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Property and equipment are reported at cost, if purchased, or at fair value at the date of gift, if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 39 to 45 years for buildings and three to five years for furniture, equipment and motor vehicles. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Long-lived Asset Impairment

The Food Bank evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Net Assets Classification

Contributions, investment return 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 of Directors (Board) designation.
- Temporarily restricted net assets include contributions and investment return 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 on permanently restricted net assets is temporarily restricted until used in accordance with donor restrictions.

Contributions

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets must be maintained. The Food Bank reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Noncash Contributions

Donated materials and use of facilities are recognized at fair value as contribution when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. A substantial number of volunteers have contributed significant amounts of time in connection with the food distribution program for which no amount has been recorded in the consolidated financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles. In fiscal years 2018 and 2017, volunteers contributed approximately 518,000 hours and 512,000 hours, respectively, to The Food Bank.

Government Grants and Contracts

Government grants and contracts are recognized when the related services are provided or commodities are distributed. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Agency Fees

Agency fees represent fees charged to agencies for handling of distributed food and are recognized when shipments of food are made to the agencies.

Sale of Purchased Food

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

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Houston Food Bank, the Endowment and MBKFF are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC). The Houston Food Bank is classified as a public charity under Section 170(b)(1)(A)(vi). The Endowment and MBKFF are classified as Type I supporting organization under Section 509(a)(3).

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the food distribution program, management and general, and fund-raising categories based on management determination of the nature of the costs and employee time expended.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Net Assets Revision

Certain immaterial revisions have been made to the beginning of year net assets in the 2017 consolidated financial statements for an error in the amounts recognized as permanently restricted and unrestricted net assets. These revisions did not have a significant impact on the financial statement line items impacted.

Note 2: Pledges Receivable

Pledges receivable consisted of the following as of June 30, 2018 or 2017.

	<u>2018</u>	<u>2017</u>
Total pledges receivable	\$ 2,904,810	\$ 3,882,352
Allowance for uncollectible pledges receivable	(274,194)	(249,554)
Discount to estimated present value at 0.41% to 2.73%	<u>(24,893)</u>	<u>(42,882)</u>
Pledges receivable, net	<u>\$ 2,605,723</u>	<u>\$ 3,589,916</u>

Pledges receivable at June 30, 2018, are expected to be collected as follows:

Receivable in one year	\$ 521,995
Receivable in one year to five years	<u>2,382,815</u>
Total pledges receivable	<u>\$ 2,904,810</u>

At June 30, 2018 and 2017, approximately 54 percent and 56 percent, respectively, of pledges receivable are due from four donors.

Note 3: Investments

Investments at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Debt securities	\$ 3,096,790	\$ 3,025,160
Common stock	2,987,240	2,952,163
International equity mutual funds	1,587,592	1,484,450
Domestic equity mutual funds	1,088,365	959,989
Asset-backed securities	171,583	210,903
Money market mutual funds	428,642	89,843
Cash	-	<u>986</u>
Total investments	<u>\$ 9,360,212</u>	<u>\$ 8,723,494</u>

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 consolidated statements of financial position and consolidated statements of activities.

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

	<u>2018</u>	<u>2017</u>
Interest and dividends earned on investments	\$ 188,748	\$ 224,344
Interest earned on notes receivable	173,856	485,974
Realized and unrealized gain on investments	<u>439,464</u>	<u>524,839</u>
Total investments return	<u>\$ 802,068</u>	<u>\$ 1,235,157</u>

Investment management fees of approximately \$35,000 and \$38,000 at June 30, 2018 and 2017, respectively, are included in management and general expense in the consolidated statements of activities.

Note 4: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2018			
	Level 1	Level 2	Level 3	Total
Common stock:				
Consumer staples	\$ 400,110	\$ -	\$ -	\$ 400,110
Information technology	572,036	-	-	572,036
Consumer discretionary	633,677	-	-	633,677
Financial	459,982	-	-	459,982
Industrial	193,289	-	-	193,289
Energy	199,931	-	-	199,931
Healthcare	221,003	-	-	221,003
American depository receipt	224,970	-	-	224,970
Materials	82,242	-	-	82,242
Debt securities:				
Corporate bonds and notes	-	1,754,515	-	1,754,515
Governmental bonds and notes	-	49,852	-	49,852
Municipal bonds	-	1,292,423	-	1,292,423
Domestic equity mutual funds:				
Large-cap	771,989	-	-	771,989
Small/mid-cap	316,376	-	-	316,376
International equity mutual funds:				
Large-cap	923,963	-	-	923,963
Strategic	478,146	-	-	478,146
Emerging markets	185,483	-	-	185,483
Asset-backed securities	-	171,583	-	171,583
Money market mutual funds	428,642	-	-	428,642
Total assets measured at fair value	\$ 6,091,839	\$ 3,268,373	\$ 0	\$ 9,360,212

	2017			
	Level 1	Level 2	Level 3	Total
Common stock:				
Consumer staples	\$ 541,992	\$ -	\$ -	\$ 541,992
Information technology	476,929	-	-	476,929
Consumer discretionary	472,068	-	-	472,068
Financial	374,808	-	-	374,808
Industrial	258,584	-	-	258,584
Energy	238,973	-	-	238,973
Healthcare	223,118	-	-	223,118
Capital goods	155,548	-	-	155,548
Preferred stock	142,515	-	-	142,515
Materials	67,628	-	-	67,628
Debt securities:				
Corporate bonds and notes	-	1,675,007	-	1,675,007
Municipal bonds	-	1,350,153	-	1,350,153
Domestic equity mutual funds:				
Large-cap	685,120	-	-	685,120
Small/mid-cap	274,869	-	-	274,869
International equity mutual funds:				
Large-cap	879,986	-	-	879,986
Strategic	425,474	-	-	425,474
Emerging markets	178,990	-	-	178,990
Asset-backed securities	-	210,903	-	210,903
Money market mutual funds	89,843	-	-	89,843
Total assets measured at fair value	\$ 5,486,445	\$ 3,236,063	\$ 0	\$ 8,722,508
Cash held as investments				986
Total investments				\$ 8,723,494

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Valuation methods used for assets measured at fair value on a recurring basis are as follows:

- Common stock is valued at the closing price reported on the active market on which the individual securities are traded.
- Debt securities and asset-backed securities are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves, and broker quotes to calculate fair values.
- Mutual funds are valued at the net asset value of shares held at year-end.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Food Bank believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Note 5: Notes Receivable

The Food Bank entered into an agreement on June 23, 2010, to lend \$36,856,479 to Chase NMTC Houston Food Bank Investment Fund, LLC (Chase NMTC Fund). The note was secured by Chase NMTC Fund's membership interest in NDC New Markets Investments LIX, LLC (NDC CDE), Business Loan Conduit No. 10, LLC (CRF CDE), and NDC New Markets Investment 46, LLC (LISC CDE), (collectively the CDEs) and other cash accounts held by a secured party. The interest rate on the note consisted of a fixed rate of 1 percent. In June 2017, The Food Bank exercised the "put right" at which time Chase NMTC Fund assumed the new market tax credit loans of \$46,647,189 in exchange for the outstanding principal on the note receivable of \$36,856,479. A gain of \$11,603,210 on the exercise of new market tax credits "put right" was recognized.

The Food Bank entered into an agreement on December 23, 2016, to lend \$4,763,187 to Twain Investment Fund 181, LLC (Twain Investment Fund). The note is secured by Twain Investment Fund's membership interest in Urban Development Fund 53, LLC (UDF CDE). The interest rate on the note is fixed as 3.65 percent. Interest is payable quarterly beginning January 2017 until December 2047. All principal and unpaid interest is due and payable in January 2047. The Food Bank may accelerate the maturity date of the note to December 2024 with a 30-day notice to Twain Investment Fund.

Interest earned on notes receivable in 2018 and 2017 was approximately \$174,000 and \$486,000, respectively.

Note 6: Property and Equipment

Property and equipment consists of the following.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2018	2017
Land	\$ 4,348,401	\$ 4,348,401
Buildings and improvements	51,052,677	50,933,298
Furniture and equipment	13,026,221	10,101,599
Motor vehicles	15,364,037	5,234,746
Total property and equipment, at cost	83,791,336	70,618,044
Less accumulated depreciation	(19,804,227)	(16,558,352)
Property and equipment, net	\$ 63,987,109	\$ 54,059,692

Note 7: Note Payable to Bank

In September 2016, The Food Bank entered into a decreasing revolving promissory note with a bank to borrow up to \$4,300,000. During 2017, proceeds of \$4,300,000 from the note were used to finance the construction of a new kitchen. The note bore interest at 3.65 percent and was secured by accounts receivable, certain cash and investment accounts and \$750,000 of the proceeds from the sale of the property located at 2445 North Freeway (Keegan building). The loan was fully repaid during 2018. At June 30, 2017, the note had an outstanding balances of \$2,763,515.

The Food Bank capitalized interest of approximately \$45,000 in 2017. Interest recognized as expense totaled approximately \$30,000 in 2017.

Note 8: Capital Lease Payable

Capital leases include leases covering 23 freightliners for seven years effective October 6, 2017, and expiring April 1, 2025. Aggregate annual maturities of payments on capital lease obligations at June 30, 2018, are:

2019	\$ 598,848
2020	598,848
2021	598,848
2022	598,848
2023	598,848
Thereafter through 2030	1,097,888
	4,092,128
Less amount representing interest	(871,957)
Present value of future minimum lease payments	\$ 3,220,171

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Capitalized assets under the lease were \$3,194,619, net of accumulated depreciation as of June 30, 2018.

Note 9: New Market Tax Credits Notes Payable

QALICB executed loan agreements on June 23, 2010, that provided for borrowing of \$12,125,000, \$26,500,000 and \$10,339,971 from NDC CDE, CRF CDE and LISC CDE, respectively. The loans were finance the purchase and renovations of the Portwall facility and were intended to be treated as a "qualified low-income community investment" for purposes of generating new market tax credits under Section 45D of the IRC of 1986, as amended. The loans were secured by a property deed of trust, security agreement and fixture filing on this property, and guaranty by The Food Bank. Under the terms of the new market tax credits loan agreements, each loan accrued interest at 0.814 percent payable quarterly beginning in September 2010. The Food Bank exercised its "put right" June 2017, and as a result Chase NMTC Fund assumed the new market tax credits loans of \$48,647,189 in exchange for the outstanding principal of \$36,856,479 on the note receivable from Chase NMTC Fund.

QALICB executed loan agreement on December 23, 2016, that provided for borrowing of \$6,500,000 from UDF CDE. Proceeds from the loans were used to finance the construction of a new kitchen and are intended to be treated as a "qualified low-income community investment" for purpose of generating new market tax credits under Section 45D of the IRC of 1986, as amended. The loans are secured by a property deed of trust, security agreement and fixture filing on this property and guaranty by The Food Bank. Under the terms of new market tax credits loan agreement, each loan accrues interest at 3.42 percent payable quarterly beginning in March 2017 with the principle balance in its entirety on January 1, 2047. QALICB is not permitted to prepay any portion of the loans until the seventh anniversary of the loan.

	2018	2017
Total new market tax credits notes payable	\$ 6,500,000	\$ 6,500,000
Less unamortized debt issuance costs	(282,059)	(291,956)
New market tax credits notes payable, net	\$ 6,217,941	\$ 6,208,044

The balances outstanding on the new market tax credits notes payable, maturity dates and repayment terms at June 30, 2018, are as follows:

Note payable to UDF CDE Loan A, matures on January 1, 2047, with principal payments commencing in January 2024	\$ 4,763,187
Note payable to UDF CDE Loan B, matures on January 1, 2047, with principal payments commencing in January 2024	1,736,813
Total new market tax credits notes payable	\$ 6,500,000

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

At any time after the seventh anniversary but before the eighth anniversary of the note receivable, U.S. Bancorp Community Development Corporation can exercise its "put option" to sell its interest in Twain Investment to The Food Bank for \$1,000. After exercising its option to purchase the interest in the Twain Investment Fund, The Food Bank may cancel the new market tax credits notes payable.

The Food Bank capitalized interest of approximately \$61,000 in 2017. Interest recognized as expense totaled approximately \$222,000 and \$450,000 in 2018 and 2017, respectively.

Note 10: Unrestricted Net Assets

Unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 95,885,406	\$ 63,037,573
Board-designated - quasi-endowment for general operations	<u>5,422,929</u>	<u>4,929,262</u>
Total unrestricted net assets	<u>\$ 101,308,335</u>	<u>\$ 67,966,835</u>

Note 11: Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Food for change	\$ 1,018,816	\$ 1,591,791
Time restricted for periods after June 30	1,207,204	1,025,739
Transportation	-	750,000
Accumulated earnings on general endowment	357,674	238,961
Disaster relief	-	83,618
Kids café	-	15,000
School market	213,570	-
Texans Café	25,000	-
Other	<u>-</u>	<u>55,000</u>
Total temporarily restricted net assets	<u>\$ 2,822,264</u>	<u>\$ 3,760,109</u>

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 12: Permanently Restricted Net Assets

Permanently restricted net assets are invested to support the following:

	<u>2018</u>	<u>2017</u>
Houston Food Bank Endowment - general operations	\$ 961,390	\$ 946,390

Note 13: Endowment Funds

The Food Bank's endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by GAAP, net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of the Endowment has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Food Bank classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amount are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribe by TUPMIFA. In accordance with TUPMIFA, the Endowment considers the following factors in making a determination appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the funds.
2. The purpose of the Food Bank and the donor-restricted endowment funds.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investment.
6. Other resources of The Food Bank.
7. The investment policies of the Endowment.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to The Food Bank while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds. Under the policy, as approved by the Board, the endowment assets of the Endowment are invested in a manner that will seek to maintain a level of portfolio risk that is no more than 125 percent of the risk of the portfolio's tactical index. The Endowment expects its endowment funds, over time, to provide an average rate of return net of investment management expenses of 5 percent, plus the annual rate of inflation over any 10-year period.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment return is achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment 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

The Endowment has a policy of not appropriating more than 5 percent of the endowment fund's average market value as of the end of the last three fiscal years prior to the year in which the distribution is planned. In establishing this policy, the Endowment considered the long-term expected return and the effects of inflation on its endowment. This is consistent with the Endowment's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Endowment to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

Endowment net asset composition as of June 30, 2018, is as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 5,422,929	\$ -	\$ -	\$ 5,422,929
Donor-restricted endowment funds	-	357,674	961,390	1,319,064
Endowment net assets	<u>\$ 5,422,929</u>	<u>\$ 357,674</u>	<u>\$ 961,390</u>	<u>\$ 6,741,993</u>

The Houston Food Bank and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Endowment net asset composition as of June 30, 2017, is as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 4,929,262	\$ -	\$ -	4,929,262
Donor-restricted endowment funds	-	238,961	946,390	1,185,351
Endowment net assets	<u>\$ 4,929,262</u>	<u>\$ 238,961</u>	<u>\$ 946,390</u>	<u>\$ 6,114,613</u>

Changes in net assets of the endowment funds are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 4,614,595	\$ 163,293	\$ 946,390	\$ 5,724,278
Investment return:				
Interest and dividends	87,222	20,974	-	108,196
Net realized and unrealized loss	498,662	119,914	-	618,576
Total investment return	<u>585,884</u>	<u>140,888</u>	<u>0</u>	<u>726,772</u>
Distribution	<u>(244,012)</u>	<u>(58,678)</u>	<u>0</u>	<u>(302,690)</u>
Investment management fees	<u>(27,205)</u>	<u>(6,542)</u>	<u>0</u>	<u>(33,747)</u>
Endowment net assets, June 30, 2017	<u>4,929,262</u>	<u>238,961</u>	<u>946,390</u>	<u>6,114,613</u>
Contributions	<u>0</u>	<u>0</u>	<u>15,000</u>	<u>15,000</u>
Investment return:				
Interest and dividends	97,010	23,328	-	120,338
Net realized and unrealized loss	427,681	102,845	-	530,526
Total investment return	<u>524,691</u>	<u>126,173</u>	<u>0</u>	<u>650,864</u>
Distribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Investment management fees	<u>(31,024)</u>	<u>(7,460)</u>	<u>0</u>	<u>(38,484)</u>
Endowment net assets, June 30, 2018	<u>\$ 5,422,929</u>	<u>\$ 357,674</u>	<u>\$ 961,390</u>	<u>\$ 6,741,993</u>

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30 consisted of:

	<u>2018</u>	<u>2017</u>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or TUPMIFA	\$ 961,390	\$ 946,390
Portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	357,674	238,961

Note 14: Noncash Contributions

Food Donations – The majority of food distributed by The Food Bank is received by contributions from the general public, the U.S. Department of Agriculture (USDA) and the U.S. Department of Homeland Security (USDHS). The estimated value of these contributions is recognized in the consolidated financial statements as contribution revenue and food and other supplies or program expenses if distributed during the year. The pounds collected are recorded by The Food Bank staff at the time of receipt based on actual weight. The total value of contributed food for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>			<u>2017</u>		
	Pounds	Value Per Pound	Amount	Pounds	Value Per Pound	Amount
General donations	100,710,759	\$1.68	\$ 169,194,075	73,760,229	\$1.73	\$ 127,605,196
USDA	25,139,416	\$1.57	39,468,882	27,610,855	\$1.52	41,968,500
USDHS	26,683,014	\$1.57	41,892,332	-	\$1.52	-
Total	<u>152,533,189</u>		<u>\$ 250,555,289</u>	<u>101,371,084</u>		<u>\$ 169,573,696</u>

Other Donations – During 2018, The Food Bank received \$1,695,081 of other donated property, goods and services, including \$318,040 of baseball tickets, a \$300,000 truck, \$193,786 of trailers, \$650,000 of consulting hours, and \$233,255 of miscellaneous goods and services. During 2017, The Food Bank received \$461,756 of other donated property, goods and services, including \$328,848 of baseball tickets, \$55,000 of electronic travel certificates from an airline, and \$77,908 of miscellaneous goods and services.

Note 15: Government Grants and Contracts

The Food Bank is party to contracts with federal and state government agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources and grants and contracts are as follows.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2018	2017
U.S. Department of Agriculture	\$ 6,747,187	\$ 5,441,949
Texas Health and Human Services Commission	1,237,401	1,044,931
Texas Department of Agriculture	881,344	800,726
U.S. Department of Homeland Security	-	197,400
	8,865,932	7,485,006
Commodities:		
U.S. Department of Homeland Security	41,892,332	-
U.S. Department of Agriculture	39,468,882	41,968,500
	\$ 90,227,146	\$ 49,453,506

The grants from federal and state funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of noncompliance by The Food Bank with the terms of the contracts. Management believes such disallowances, if any, would not be material to The Food Bank's financial position or changes in net assets.

Note 16: Freezer Lease

The Food Bank entered into a 20-year lease agreement on February 15, 2010, to rent the freezer facility at the Portwall facility effective April 2010. The lease agreement included two five-year renewal options. The following is a schedule of future rent income of June 30, 2018:

2019	\$ 883,398
2020	903,706
2021	944,322
2022	944,322
2023	944,322
Thereafter through 2030	6,447,790
Total	\$ 11,067,860

Rental income of \$1,544,001 and \$925,782 has been recognized in the consolidated financial statements related to this lease agreement for 2018 and 2017, respectively.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 17: Industrial Lease

The Food Bank entered into an industrial lease for warehouse space on September 1, 2017, as amended on February 16, 2018. The lease expires on June 30, 2019. Future minimum lease payments under the operating lease is \$504,000 to be paid in fiscal year 2019. Rental expense of \$378,000 has been recognized in the consolidated financial statements related to this lease agreement for 2018.

Note 18: Employee Pension Plan

The Food Bank has a defined contribution 401(k) plan for employees who meet certain length of service requirements. The Food Bank matches 50 percent of employees' contribution up to 6 percent of the employee's compensation. Defined contributions made by the Food Bank vest at the end of the year. The Food Bank's contributions to the plan were \$264,123 and \$166,519 for the years ended June 30, 2018 and 2017.

Note 19: Related-party Transactions

A Board member of the Food Bank is an employee of a produce company to which the Food Bank paid approximately \$18,000 and \$471,000 during 2018 and 2017, respectively, and another Board member of the Food Bank is an employee of a food distribution company to which the Food Bank paid approximately \$934,000 and \$159,000 during 2018 and 2017, respectively.

Note 20: Subsequent Events

Subsequent events have been evaluated through September 20, 2018, which is the date the consolidated financial statements were available to be issued.