

# **The Houston Food Bank and Subsidiaries**

Independent Auditor's Reports and  
Consolidated Financial Statements

June 30, 2020 and 2019



**The Houston Food Bank and Subsidiaries**  
**June 30, 2020 and 2019**

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## 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 statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Houston, Texas  
November 12, 2020

**The Houston Food Bank and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Cash	\$ 40,668,747	\$ 4,685,157
Accounts receivable:		
Government grants and contracts	11,668,411	3,876,275
Agency, net	120,465	402,123
Other food banks	2,127,700	-
Food and other supplies	21,466,551	20,276,114
Prepaid expenses	1,176,415	1,073,538
Operating pledges receivable, net	778,619	988,179
Operating investments	2,920,081	2,757,131
Notes receivable	4,763,187	4,763,187
Pledges receivable for capital campaign, net	296,207	685,695
Investments internally designated for endowment	7,574,326	7,244,786
Property and equipment, net	58,120,541	62,859,516
Total assets	\$ 151,681,250	\$ 109,611,701
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 12,528,350	\$ 1,820,482
Accrued expenses	1,723,419	1,052,903
Capital lease payable	2,417,306	2,832,623
New market tax credits notes payable, net	6,237,735	6,227,838
Notes payable	3,200,000	-
Total liabilities	26,106,810	11,933,846
 <b>Net Assets</b>		
Without donor restrictions	117,429,227	92,629,746
With donor restrictions	8,145,213	5,048,109
Total net assets	125,574,440	97,677,855
Total liabilities and net assets	\$ 151,681,250	\$ 109,611,701

**The Houston Food Bank and Subsidiaries**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Donated food	\$ 224,806,244	\$ -	\$ 224,806,244
Contributions	49,217,316	4,055,696	53,273,012
Other noncash contributions	229,797		229,797
Special events	276,346	256,372	532,718
Direct donor benefit costs	(125,242)	-	(125,242)
Government grants and contracts	23,220,763	15,781,500	39,002,263
Agency fees	954,158	-	954,158
Other grants and contracts	549,646	-	549,646
Investment return	606,806	63,011	669,817
Freezer rental income	926,036	-	926,036
Sales of purchased food	529,263	-	529,263
Gain on sales of property and equipment	14,407	-	14,407
Other income	682,494	-	682,494
	<u>301,888,034</u>	<u>20,156,579</u>	<u>322,044,613</u>
<b>Net Assets Released From Restrictions</b>			
Expenditures for program purposes	16,637,387	(16,637,387)	-
Expiration of time restrictions	422,088	(422,088)	-
	<u>17,059,475</u>	<u>(17,059,475)</u>	<u>0</u>
Total revenues, gains and other support	<u>318,947,509</u>	<u>3,097,104</u>	<u>322,044,613</u>
<b>Expenses</b>			
Program services	283,731,135	-	283,731,135
Management and general	5,946,450	-	5,946,450
Fund-raising	4,470,443	-	4,470,443
Total expenses	<u>294,148,028</u>	<u>0</u>	<u>294,148,028</u>
<b>Increase in Net Assets</b>	24,799,481	3,097,104	27,896,585
<b>Net Assets, Beginning of Year</b>	<u>92,629,746</u>	<u>5,048,109</u>	<u>97,677,855</u>
<b>Net Assets, End of Year</b>	<u>\$ 117,429,227</u>	<u>\$ 8,145,213</u>	<u>\$ 125,574,440</u>

**The Houston Food Bank and Subsidiaries**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Donated food	\$ 169,620,944	\$ -	\$ 169,620,944
Contributions	14,029,945	5,627,644	19,657,589
Other noncash contributions	444,218	-	444,218
Special events	499,982	380,260	880,242
Direct donor benefit costs	(197,954)	-	(197,954)
Government grants and contracts	13,821,013	-	13,821,013
Agency fees	1,992,807	-	1,992,807
Other grants and contracts	1,079,355	-	1,079,355
Investment return	780,729	98,267	878,996
Freezer lease income	890,665	-	890,665
Sales of purchased food	166,679	-	166,679
Gain on sales of property and equipment	51,522	-	51,522
Other income	539,366	-	539,366
	<u>203,719,271</u>	<u>6,106,171</u>	<u>209,825,442</u>
<b>Net Assets Released From Restrictions</b>			
Expenditures for program purposes	3,883,939	(3,883,939)	-
Expiration of time restrictions	957,777	(957,777)	-
	<u>4,841,716</u>	<u>(4,841,716)</u>	<u>0</u>
Total revenues, gains and other support	<u>208,560,987</u>	<u>1,264,455</u>	<u>209,825,442</u>
<b>Expenses</b>			
Program services	207,825,885	-	207,825,885
Management and general	5,446,285	-	5,446,285
Fund-raising	3,967,406	-	3,967,406
Total expenses	<u>217,239,576</u>	<u>0</u>	<u>217,239,576</u>
<b>Increase (Decrease) in Net Assets</b>	(8,678,589)	1,264,455	(7,414,134)
<b>Net Assets, Beginning of Year</b>	<u>101,308,335</u>	<u>3,783,654</u>	<u>105,091,989</u>
<b>Net Assets, End of Year</b>	<u>\$ 92,629,746</u>	<u>\$ 5,048,109</u>	<u>\$ 97,677,855</u>

**The Houston Food Bank and Subsidiaries**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2020**

	Program Services					Support Services			
	Food Distribution	Child Hunger Initiatives*	Client Assistance Program*	Other Program Services*	Total Program Services	Management and General	Fund-raising	Total Support Services	Total
Salaries	\$ 11,504,504	\$ 1,243,045	\$ 1,776,212	\$ 628,867	\$ 15,152,628	\$ 2,204,983	\$ 1,409,116	\$ 3,614,099	\$ 18,766,727
Contract labor and intern stipends	2,983,652	27,251	-	4,199	3,015,102	-	3,939	3,939	3,019,041
Payroll taxes and benefits	2,243,621	240,613	332,912	134,775	2,951,921	561,307	268,871	830,178	3,782,099
Total salaries and related expenses	16,731,777	1,510,909	2,109,124	767,841	21,119,651	2,766,290	1,681,926	4,448,216	25,567,867
Distributed donated food and supplies	223,455,351	307,948	-	-	223,763,299	-	-	-	223,763,299
Purchased food	16,947,142	3,747,739	2,124	370,303	21,067,308	-	52	52	21,067,360
Depreciation	4,906,295	337,867	-	-	5,244,162	456,655	-	456,655	5,700,817
Supplies and office expense	965,821	238,811	119,995	161,573	1,486,200	870,302	816,720	1,687,022	3,173,222
Professional fees and contract services	15,916	29,680	-	43,862	89,458	1,076,985	621,919	1,698,904	1,788,362
Trucking expenses	1,810,450	846	111	23,863	1,835,270	-	-	-	1,835,270
Printing and boxes	584,567	-	-	3,085	587,652	64,071	876,874	940,945	1,528,597
Utilities and telephone	730,023	10,986	11,532	13,052	765,593	110,662	8,441	119,103	884,696
Equipment rental	1,687,729	25,257	-	(25)	1,712,961	129,036	57,645	186,681	1,899,642
Warehouse expense	1,274,042	2,715	-	950	1,277,707	1,955	-	1,955	1,279,662
Interest	183,533	-	-	-	183,533	222,300	-	222,300	405,833
Insurance	678,285	68,040	-	70,915	817,240	31,900	-	31,900	849,140
Agency grants	809,472	-	-	5,842	815,314	-	310,290	310,290	1,125,604
Travel	119,855	34,063	57,291	23,184	234,393	16,014	8,306	24,320	258,713
Advertising	29,014	5,817	694	1,981	37,506	150,959	78,747	229,706	267,212
Training and seminars	15,329	25	4,574	4,911	24,839	34,739	7,511	42,250	67,089
Repairs and maintenance	2,446,529	945	51	3,277	2,450,802	2,135	(2,988)	(853)	2,449,949
Other	216,848	-	-	1,399	218,247	12,447	5,000	17,447	235,694
Total expenses	\$ 273,607,978	\$ 6,321,648	\$ 2,305,496	\$ 1,496,013	\$ 283,731,135	\$ 5,946,450	\$ 4,470,443	\$ 10,416,893	\$ 294,148,028

\*See program descriptions in Note 1 of the Notes to Consolidated Financial Statements.



**The Houston Food Bank and Subsidiaries**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	Program Services					Support Services			Total
	Food Distribution	Child Hunger Initiatives*	Client Assistance Program*	Other Program Services*	Total Program Services	Management and General	Fund-raising	Total Support Services	
Salaries	\$ 10,251,011	\$ 1,119,593	\$ 1,276,516	\$ 805,567	\$ 13,452,687	\$ 2,227,947	\$ 1,271,758	\$ 3,499,705	\$ 16,952,392
Contract labor and intern stipends	645,907	36,631	10,771		693,309	23,956	1,596	25,552	718,861
Payroll taxes and benefits	2,412,760	267,110	280,826	169,031	3,129,727	485,002	263,247	748,249	3,877,976
Total salaries and related expenses	13,309,678	1,423,334	1,568,113	974,598	17,275,723	2,736,905	1,536,601	4,273,506	21,549,229
Distributed donated food and supplies	165,726,264	961,867	-	1,496	166,689,627	-	298,500	298,500	166,988,127
Purchased food	1,205,866	3,236,800	-	315,998	4,758,664	-	-	-	4,758,664
Depreciation	4,868,182	212,741	38,307	215,965	5,335,195	131,043	71,496	202,539	5,537,734
Supplies and office expense	576,241	419,572	32,953	224,397	1,253,163	562,717	694,399	1,257,116	2,510,279
Professional fees and contract services	1,555,936	78,841	18,559	230,341	1,883,677	1,114,629	403,669	1,518,298	3,401,975
Trucking expenses	1,448,881	5,566	360	26,345	1,481,152	-	-	-	1,481,152
Value added processing expenses	1,473,680	-	1,879	-	1,475,559	-	-	-	1,475,559
Printing and boxes	360,360	-	-	3,343	363,703	55,479	876,518	931,997	1,295,700
Utilities and telephone	985,252	21,375	3,697	19,330	1,029,654	107,224	7,705	114,929	1,144,583
Equipment rental	906,155	64,972	-	12,840	983,967	69,740	1,652	71,392	1,055,359
Warehouse expense	1,178,968	1,815	4,313	1,176	1,186,272	330	-	330	1,186,602
Interest	211,200	-	-	-	211,200	277,875	-	277,875	489,075
Insurance	754,907	54,562	-	78,186	887,655	43,698	-	43,698	931,353
Agency grants	180,602	-	-	-	180,602	-	-	-	180,602
Travel	197,670	45,433	98,140	27,199	368,442	32,495	18,096	50,591	419,033
Advertising	4,247	5,481	-	5,842	15,570	182,279	11,640	193,919	209,489
Training and seminars	32,017	49	49	1,260	33,375	91,759	8,640	100,399	133,774
Repairs and maintenance	2,379,678	3,400	-	5,283	2,388,361	25,885	38,311	64,196	2,452,557
Other	2,352	45	-	21,927	24,324	14,227	179	14,406	38,730
Total expenses	\$ 197,358,136	\$ 6,535,853	\$ 1,766,370	\$ 2,165,526	\$ 207,825,885	\$ 5,446,285	\$ 3,967,406	\$ 9,413,691	\$ 217,239,576

\*See program descriptions in Note 1 of the Notes to Consolidated Financial Statements.

**The Houston Food Bank and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Increase (decrease) in net assets	\$ 27,896,585	\$ (7,414,134)
Items not requiring (providing) operating activities cash flows:		
Depreciation of fixed assets	5,700,817	5,537,734
Amortization of debt issuance costs	9,897	9,897
Changes in food and other supplies inventory	(1,190,437)	(4,277,373)
Contribution of long-lived assets	(36,000)	-
Realized and unrealized gain on investments	(292,032)	(446,757)
Changes in:		
Accounts receivable	(9,638,178)	(2,271,243)
Pledges receivable	127,925	53,150
Prepaid expense	(102,877)	148,375
Accounts payable and accrued expenses	11,378,384	(1,369,529)
Net cash provided by (used in) operating activities	33,854,084	(10,029,880)
<b>Investing Activities</b>		
Purchase of property and equipment	(977,882)	(4,461,663)
Proceeds from disposition of investments	348,699	1,403,284
Purchase of investments	(549,157)	(1,598,232)
Proceeds from disposition of property and equipment	52,040	51,522
Net cash used in investing activities	(1,126,300)	(4,605,089)
<b>Financing Activities</b>		
Proceeds from contributions restricted for capital campaign	471,123	878,699
Proceeds from issuance of notes payable	3,200,000	-
Principal payments on capital lease	(415,317)	(387,548)
Net cash provided by financing activities	3,255,806	491,151
<b>Net Increase (Decrease) in Cash</b>	35,983,590	(14,143,818)
<b>Cash, Beginning of Year</b>	4,685,157	18,828,975
<b>Cash, End of Year</b>	\$ 40,668,747	\$ 4,685,157
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 451,511	\$ 489,075

# The Houston Food Bank and Subsidiaries

## Consolidated Financial Statements

### Years Ended June 30, 2020 and 2019

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

##### *Nature of Operations*

The Houston Food Bank and Subsidiaries (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 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.

During fiscal year 2020, the COVID-19 pandemic affected the world and caused a loss of employment. This loss of employment caused a shortage of food being purchased to feed local families. Food Banks, aided by the federal government and the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act (FFCRA), responded with extra shipments of food and other supplies and distributed this food via large distribution sites. The Houston Food Bank was able to employ furloughed workers from other companies to accomplish this. Partners in this effort were Harris County, the YMCA, the restaurant community and the National Guard. As of the end of fiscal 2020, the pandemic is still on-going and The Houston Food Bank will continue its efforts to serve the community.

In March 2020, the coronavirus disease (COVID-19) pandemic began to have a significant impact on The Houston Food Bank's operations. The Houston Food Bank distributed over 173,000,000 pounds of food in 2020 as compared to approximately 125,000,000 pounds in 2019. Contributions increased significantly in fiscal year 2020 due to contributions designated for operations due to community and government support. The value of donated food in fiscal year 2020 was approximately \$55,000,000 higher than fiscal year 2019. While most expenses remained consistent during fiscal year 2020, overtime, contract labor, rentals, and purchased food increased significantly to support the additional level of distribution.

# **The Houston Food Bank and Subsidiaries**

## **Consolidated Financial Statements**

### **Years Ended June 30, 2020 and 2019**

Beginning in the Fall of 2018, under the statutory authority of the Commodity Credit Corporation, the U.S. Department of Agriculture (USDA) is administering a Trade Mitigation Food Purchase and Distribution Program (Trade Mitigation Food Program) to purchase up to \$1.2 billion in USDA Foods. The bulk of this food is being distributed through The Emergency Food Assistance Program (TEFAP), which is USDA's primary outlet for foods purchased through market support mechanisms. Additionally, USDA is making Commodity Credit Corporation funds available to assist with the operational costs of the receipt, storage and distribution of these foods. The Houston Food Bank distributed 34,325,674 and 8,987,905 pounds of food under the Trade Mitigation Food Program in fiscal year 2020 and 2019, respectively.

Beginning in the Spring of 2020, under the statutory authority of the CARES Act, the USDA through the Texas Department of Agriculture (TDA) is administering a program to reimburse incurred costs of distributing USDA foods relating to the COVID-19 crisis. The bulk of this food is being distributed through TEFAP, which is USDA's primary outlet for foods purchased through market support mechanisms. Additionally, USDA is making CARES funds available to assist with the operational costs of the receipt, storage and distribution of these foods. The Houston Food Bank received \$3,458,000 of CARES funds in fiscal year 2020.

Beginning in the Spring of 2020, under the statutory authority of the FFCRA, the USDA through the TDA is administering a program to reimburse incurred costs of distributing USDA foods relating to the COVID-19 crisis. The bulk of this food is being distributed through TEFAP, which is USDA's primary outlet for foods purchased through market support mechanisms. Additionally, USDA is making FFCRA funds available to assist with the operational costs of the receipt, storage and distribution of these foods. The Houston Food Bank has received \$860,000 of FFCRA funds in fiscal year 2020.

In the Spring of 2020, under the statutory authority of the Texas Government Code, Chapter 418 and the CARES, the U.S. Department of Homeland Security (USDHS) through the Texas Division of Emergency Management (TDEM) and The Texas A&M University System, an agency of the State of Texas, are administering a program to purchase and distribute food as an emergency protective measure related to the COVID-19 crisis. The food is purchased under the rules and regulations of the Federal Emergency Management Agency (FEMA) Public Assistance Program. The Houston Food Bank received \$15,781,500 of funding through this program in fiscal year 2020.

#### ***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**

## **Consolidated Financial Statements**

### **Years Ended June 30, 2020 and 2019**

#### ***Use of Estimates***

The preparation of 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 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, 2020, The Food Bank's cash accounts exceeded federally insured limits per institution by approximately \$41,196,000.

#### ***Accounts Receivable***

Accounts receivable consists of receivables outstanding at year-end from government grants and contracts and agencies. 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. An allowance of \$207,000 was recorded as of June 30, 2020. No allowance was recorded as of June 30, 2019.

#### ***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 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.

#### ***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

# **The Houston Food Bank and Subsidiaries**

## **Consolidated Financial Statements**

### **Years Ended June 30, 2020 and 2019**

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 other supplies are recognized as expense when distributed.

#### ***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 net assets without donor restrictions 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 net assets with donor restrictions. 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. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

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

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result from the use and eventual disposition of the asset are 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, 2020 and 2019.

***Net Assets Classification***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board (Board) has designated, from net assets without donor restrictions, net assets for an operating reserve and Board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

***Contributions***

Contributions are provided to The Food Bank either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on The Food Bank overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value

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Nature of the Gift	Value Recognized
<i>Unconditional gifts, with or without restriction (continued)</i>	
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those 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 the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

***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 GAAP. In fiscal years 2020 and 2019, volunteers contributed approximately 538,000 hours and 623,000 hours (unaudited), respectively, to The Food Bank.



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#### ***Government Grants and Contracts***

Support funded by grants is recognized as The Food Bank meets the conditions prescribed by the grant agreement, distributes commodities, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. 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.

#### ***Sales of Purchased Food***

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

To enhance our Food Distribution program activity, The Houston Food Bank also offers several programs that are designed to aid in distributing food and services to the most At-Risk in our communities. Our consolidated statement of functional expenses has been segregated by these specific program initiatives.

#### ***Child Hunger Initiatives***

*Child Hunger Initiatives* includes programs developed to reach more children in schools, day care and other places that feed and care for underprivileged children.

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*Backpack Buddy* program provides food to children at school locations in backpacks that they can take home at the end of the week to help feed the entire family.

*Kids Cafe* program is a collaboration of chefs, dietitians, students and volunteers. The mission of *Kids Cafe* is to help alleviate child hunger in America by providing hungry children with nutritious meals at times when other resources are not available, such as afterschool, on the weekends, and during the summer. *Kids Cafe* programs provide free meals and snacks to children of low-income families through a variety of existing community locations where children congregate.

*School Market* program helps alleviate child hunger in our community by providing food to children and their families. School-based markets are located on the grounds of a school to provide an easily accessible source of food assistance.

#### **Client Assistance Programs**

*Client Assistance Program (CAP)* provides application assistance for SNAP (*Supplemental Nutrition Assistance Program*) and other social, health, and personal services at the main office, by phone and at locations all around the greater Houston area. Referral services include a food pantry near the client, medical prescription assistance, utility assistance, cell phone assistance and rental assistance. Services are available in English and Spanish and may be provided in other languages via state interpretation services as needed.

*Nutrition Education* program was developed to address food insecurity and hunger by using USDA materials and guidelines to achieve nutritional goals. Healthy nutrition habits promote health and reduce risk of diseases, such as diabetes. Classes are offered to our partner agencies and community organizations and revolve around USDA *Healthy Eating with MyPlate* and physical fitness. Each class features a cooking demo highlighting the material of the class.

The *Senior Box* program is a federal initiative designed to improve the health and nutrition of income eligible seniors. *Senior Box* program participants receive one box of food per month with an average retail value of \$50, which includes fruit juice/shelf-stable 2 percent milk, cereal, canned protein (e.g., chicken, chili, stew), pasta, canned vegetables/fruit, non-fat dried milk, bag of dried beans or jar of peanut butter, and a two-pound block of cheese.

#### **Other Program Initiatives**

*Food for Change* is an innovative strategy that goes beyond emergency food assistance to address the root causes of hunger. The Houston Food Bank is at the forefront of efforts by food banks to use food as a catalyst – in partnership with social service programs – to help individuals achieve their life goals focusing on two related areas: health-related and economic opportunities.

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*Teachers Aid* program provides the supplies kids need to succeed. Many children can not afford the most basic school supplies. Without the proper tools to do the work, children are challenged to achieve academic success. Many compassionate teachers pay for school supplies from their own pockets so that their students have a more productive, efficient learning experience. The *Teacher's Aid* program allows teachers to shop for supplies at a central location at no cost.

The Houston Food Bank's offers a *Culinary Training* program, where students learn to become chefs. They have opportunities to practice preparing dishes for sale at the *Texan's Café* located at The Food Bank or for catering events. At the end of the training, several popular restaurants and hotels are invited to taste dishes prepared by the students and interview for possible employment.

#### Note 2: Change in Accounting Principles

On July 1, 2019, The Food Bank adopted the Financial Accounting Standards Board Accounting Standards Update 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The adoption has no impact on the overall change in net assets or net cash provided by operating activities. There was no impact on the 2020 consolidated financial statements.

#### Note 3: Pledges Receivable

Pledges receivable as of June 30, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Total pledges receivable	\$ 1,289,719	\$ 1,888,767
Allowance for uncollectible pledges receivable	(190,000)	(190,000)
Discount to estimated present value at 0.41% to 2.73%	<u>(24,893)</u>	<u>(24,893)</u>
Pledges receivable, net	<u>\$ 1,074,826</u>	<u>\$ 1,673,874</u>

Pledges receivable at June 30, 2020, are scheduled to be collected as follows:

Receivable in one year	\$ 607,369
Receivable in one to five years	<u>682,350</u>
Total pledges receivable	<u>\$ 1,289,719</u>

At June 30, 2020 and 2019, approximately 12 percent and 25 percent, respectively, of pledges receivable are due from one donor, respectively.

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**Note 4: Investments**

Investments at June 30, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Debt securities	\$ 4,424,374	\$ 3,446,305
Common stock	3,415,026	3,318,801
International equity mutual funds	1,401,168	1,616,302
Domestic equity mutual funds	1,107,731	1,151,706
Asset-backed securities	75,446	145,948
Money market mutual funds	<u>70,662</u>	<u>322,855</u>
Total investments	<u>\$ 10,494,407</u>	<u>\$ 10,001,917</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 consolidated statements of financial position and consolidated statements of activities.

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

	<u>2020</u>	<u>2019</u>
Interest and dividends earned on investments	\$ 203,929	\$ 258,383
Interest earned on notes receivable	173,856	173,856
Realized and unrealized gain on investments	<u>292,032</u>	<u>446,757</u>
Total investments return	<u>\$ 669,817</u>	<u>\$ 878,996</u>

**Note 5: 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.

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**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, 2020 and 2019:

	<b>2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock:				
American depository receipt	\$ 169,067	\$ -	\$ -	\$ 169,067
Communication services	429,637	-	-	429,637
Consumer discretionary	286,948	-	-	286,948
Consumer staples	319,343	-	-	319,343
Energy	53,538	-	-	53,538
Financial	407,118	-	-	407,118
Healthcare	360,046	-	-	360,046
Industrial	214,934	-	-	214,934
Information technology	1,049,434	-	-	1,049,434
Materials	124,961	-	-	124,961
Debt securities:				
Corporate bonds and notes	-	1,626,047	-	1,626,047
Municipal bonds	-	2,798,327	-	2,798,327
Domestic equity mutual funds:				
Large-cap	798,192	-	-	798,192
Small/mid-cap	309,539	-	-	309,539
International equity mutual funds:				
Large-cap	827,662	-	-	827,662
Strategic	417,932	-	-	417,932
Emerging markets	155,574	-	-	155,574
Asset-backed securities	-	75,446	-	75,446
Money market mutual funds	70,662	-	-	70,662
Total assets measured at fair value	<u>\$ 5,994,587</u>	<u>\$ 4,499,820</u>	<u>\$ 0</u>	<u>\$ 10,494,407</u>

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	2019			
	Level 1	Level 2	Level 3	Total
Common stock:				
American depository receipt	\$ 224,379	\$ -	\$ -	\$ 224,379
Communication services	485,739	-	-	485,739
Consumer discretionary	201,556	-	-	201,556
Consumer staples	375,124	-	-	375,124
Energy	187,932	-	-	187,932
Financial	430,131	-	-	430,131
Healthcare	300,419	-	-	300,419
Industrial	236,151	-	-	236,151
Information technology	774,011	-	-	774,011
Materials	103,359	-	-	103,359
Debt securities:				
Corporate bonds and notes	-	1,768,099	-	1,768,099
Municipal bonds	-	1,678,206	-	1,678,206
Domestic equity mutual funds:				
Large-cap	822,788	-	-	822,788
Small/mid-cap	328,918	-	-	328,918
International equity mutual funds:				
Large-cap	932,986	-	-	932,986
Strategic	493,888	-	-	493,888
Emerging markets	189,428	-	-	189,428
Asset-backed securities	-	145,948	-	145,948
Money market mutual funds	322,855	-	-	322,855
Total assets measured at fair value	<u>\$ 6,409,664</u>	<u>\$ 3,592,253</u>	<u>\$ 0</u>	<u>\$ 10,001,917</u>

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.

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**Note 6: Notes Receivable**

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 both 2020 and 2019 was approximately \$174,000.

**Note 7: Property and Equipment**

Property and equipment at June 30, 2020 and 2019, consisted of the following:

	<b>2020</b>	<b>2019</b>
Land	\$ 4,348,401	\$ 4,348,401
Buildings and improvements	51,417,429	51,072,179
Furniture and equipment	15,585,210	15,012,949
Motor vehicles	17,741,089	17,767,948
Construction in progress	39,000	-
Total property and equipment, at cost	89,131,129	88,201,477
Less accumulated depreciation	(31,010,588)	(25,341,961)
Property and equipment, net	<u>\$ 58,120,541</u>	<u>\$ 62,859,516</u>

**Note 8: Capital Lease Payable**

Capital leases include leases covering 23 freightliners for seven years effective October 6, 2017, with monthly payments of \$49,904 including interest at 6.94 percent through April 2025. Aggregate annual maturities of payments on capital lease obligations at June 30, 2020, are as follows:

	<b>Capital Lease Obligations</b>
2021	\$ 598,848
2022	598,848
2023	598,848
2024	598,848
2025	449,361
	<u>2,844,753</u>
Less amount representing interest	(427,447)
Present value of future minimum lease payments	<u>\$ 2,417,306</u>

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Capitalized assets under the lease were \$2,248,065 and \$2,721,342, net of accumulated depreciation as of June 30, 2020 and 2019, respectively.

**Note 9: New Market Tax Credits Notes Payable**

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 Internal Revenue Code 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.

	<b>2020</b>	<b>2019</b>
Total new market tax credits notes payable	\$ 6,500,000	\$ 6,500,000
Less unamortized debt issuance costs	(262,265)	(272,162)
New market tax credits notes payable, net	\$ 6,237,735	\$ 6,227,838

The balances outstanding on the new market tax credits notes payable, maturity dates and repayment terms at June 30, 2020, 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

At any time after the 7<sup>th</sup> anniversary but before the 8<sup>th</sup> 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.

Interest recognized as expense totaled approximately \$222,000 in both 2020 and 2019.



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**Note 10: Line of Credit**

On January 13, 2020, The Food Bank entered into a \$2,500,000 revolving line of credit (line) expiring January 15, 2021. No amounts were borrowed against the line during the year ended June 30, 2020. Interest rate is a rate per year equal to the lesser of LIBOR plus 1.30 percent or the bank's prime rate, and is payable monthly. Outstanding principal is due on the expiration date.

**Note 11: Paycheck Protection Program (PPP) Loan**

In April 2020, The Food Bank received a PPP loan as established by the CARES Act and has elected to account for the funding as a conditional contribution by applying Accounting Standards Codification Topic 958-605, *Revenue Recognition - Contributions*. Revenue is recognized when conditions are met, which include meeting FTE and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. Conditions of the PPP loan have not been met as of June 30, 2020, and, therefore, revenue has not been recognized. As of June 30, 2020, the \$3,200,000 loan is reported as notes payable in the consolidated statement of net position.

**Note 12: Net Assets**

***Net Assets With Donor Restrictions***

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	<b>2020</b>	<b>2019</b>
Subject to expenditure for specified purpose:		
Capital expenditures	\$ 688,000	\$ -
Child hunger initiatives	821,611	772,087
Food distribution	3,735,617	993,289
Client assistance programs	124,650	-
Other programs	323,498	771,219
	<u>5,693,376</u>	<u>2,536,595</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due	<u>971,495</u>	<u>1,094,183</u>

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	<b>2020</b>	<b>2019</b>
Endowments:		
Accumulated investment gains subject to appropriation and expenditure	\$ 518,952	\$ 455,941
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	961,390	961,390
	1,480,342	1,417,331
Total	\$ 8,145,213	\$ 5,048,109

***Net Assets Without Donor Restrictions***

Net assets without donor restrictions at June 30 are as follows:

	<b>2020</b>	<b>2019</b>
Undesignated	\$ 111,335,243	\$ 86,802,291
Board-designated - endowment funds for general operations	6,093,984	5,827,455
Net assets without donor restrictions	\$ 117,429,227	\$ 92,629,746

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<b>2020</b>	<b>2019</b>
Expiration of time restrictions	\$ 422,088	\$ 957,777
Satisfaction or purpose restrictions:		
Capital expenditures	39,000	-
Child hunger initiatives	1,785,042	1,538,672
Food distribution	14,173,380	984,099
Client assistance program	70,448	78,997
Other programs	569,517	1,282,171
	16,637,387	3,883,939
	\$ 17,059,475	\$ 4,841,716

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#### **Note 13: Endowment**

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 net assets with donor restrictions. The remaining portion of the donor-restricted endowment are reported as net assets with donor restrictions 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.

#### ***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. The 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.

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#### ***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 net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new contributions without donor restrictions and continued appropriation for certain purposes that was deemed prudent by the governing body.

Endowment net asset composition as of June 30, 2020 and 2019, is as follows:

	<b>2020</b>		<b>Total</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	
Board-designated endowment funds	\$ 6,093,984	\$ -	\$ 6,093,984
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	961,390	961,390
Accumulated investment gains subject to appropriation and expenditure	-	518,952	518,952
Endowment net assets	<u>\$ 6,093,984</u>	<u>\$ 1,480,342</u>	<u>\$ 7,574,326</u>

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	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 5,827,455	\$ -	\$ 5,827,455
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	961,390	961,390
Accumulated investment gains subject to appropriation and expenditure	-	455,941	455,941
Endowment net assets	<u>\$ 5,827,455</u>	<u>\$ 1,417,331</u>	<u>\$ 7,244,786</u>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2018	<u>\$ 5,422,929</u>	<u>\$ 1,319,064</u>	<u>\$ 6,741,993</u>
Investment return, net:			
Interest and dividends	105,298	25,612	130,910
Net realized and unrealized gain	337,850	82,178	420,028
Investment management fees	(39,152)	(9,523)	(48,675)
Total investment return, net	<u>403,996</u>	<u>98,267</u>	<u>502,263</u>
Contributions	<u>530.00</u>	<u>0</u>	<u>530</u>
Endowment net assets, June 30, 2019	<u>5,827,455</u>	<u>1,417,331</u>	<u>7,244,786</u>
Contributions	<u>7,455</u>	<u>0</u>	<u>7,455</u>
Investment return, net:			
Interest and dividends	104,633	25,448	130,081
Net realized and unrealized gain	194,948	47,415	242,363
Investment management fees	(40,507)	(9,852)	(50,359)
Total investment return, net	<u>259,074</u>	<u>63,011</u>	<u>322,085</u>
Endowment net assets, June 30, 2020	<u>\$ 6,093,984</u>	<u>\$ 1,480,342</u>	<u>\$ 7,574,326</u>

**The Houston Food Bank and Subsidiaries**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2020 and 2019**

**Note 14: Noncash Contributions**

***Donated Food***

The majority of food distributed by The Food Bank is received by contributions from the general public, the 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. For the year ended June 30, 2020, The Food Bank separately valued items by 22 food-only product categories and 6 non-food only categories. For the year ended June 30, 2019, The Food Bank separately valued donated food and combined food and household items separately as shown below. The total value of contributed food for the years ended June 30, 2020 and 2019, is as follows:

	2020			2019		
	Pounds	Value Per Pound	Amount	Pounds	Value Per Pound	Amount
General donations - food and household items	95,237,204	\$0.70 to \$12.59	\$ 119,020,934	26,269,042	\$1.62	\$ 42,555,848
General donations - food	-	-	-	38,376,177	\$1.52	58,331,789
USDA	64,574,640	\$0.70 to \$12.59	105,785,310	45,219,056	\$1.52	68,732,965
USDHS	-	-	-	225	\$1.52	342
Total	<u>159,811,844</u>		<u>\$ 224,806,244</u>	<u>109,864,500</u>		<u>\$ 169,620,944</u>

***Other Noncash Contributions***

During 2020, The Food Bank received \$229,797 of other donated property, goods and services, including \$104,684 of vehicles and equipment, and \$125,113 of miscellaneous goods and services. During 2019, The Food Bank received \$444,218 of other donated property, goods and services, including \$375,572 of baseball tickets and \$68,646 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**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Program and administrative costs:		
U.S. Department of Agriculture	\$ 19,416,981	\$ 11,632,537
Harris County, Texas	1,856,938	-
Texas Department of Emergency Management	3,945,375	-
U.S. Department of Homeland Security	11,836,125	-
Texas Health and Human Services Commission	1,009,188	1,069,811
Texas Department of Agriculture	<u>937,656</u>	<u>1,118,665</u>
	<u>39,002,263</u>	<u>13,821,013</u>
Commodities:		
U.S. Department of Homeland Security	105,785,310	342
U.S. Department of Agriculture	<u>-</u>	<u>68,732,965</u>
	<u>105,785,310</u>	<u>68,733,307</u>
Total government grants and contracts	<u>\$ 144,787,573</u>	<u>\$ 82,554,320</u>

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 at the Aleen Street 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, 2020:

2021	\$ 944,322
2022	944,322
2023	944,322
2024	944,322
2025	954,476
Thereafter through 2030	<u>4,548,992</u>
Total	<u>\$ 9,280,756</u>

Rental income of \$926,036 and \$890,665 has been recognized in the consolidated financial statements related to this lease agreement for 2020 and 2019, respectively.

**The Houston Food Bank and Subsidiaries**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2020 and 2019**

**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 expired on June 30, 2019. Rental expense of \$504,000 has been recognized in the consolidated financial statements related to this lease agreement for the year ended June 30, 2019.

The Food Bank entered into an industrial lease for warehouse space on May 1, 2020, for seven months set to expire on November 30, 2020. Rental expense of \$75,000 has been recognized in the consolidated financial statements related to this lease agreement for the year ended June 30, 2020.

The Food Bank entered into an industrial lease for warehouse space on June 1, 2020, for eight months set to expire on January 31, 2021. Rental expense of \$66,000 has been recognized in the consolidated financial statements related to this lease agreement for the year ended June 30, 2020.

**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 \$287,415 and \$295,028 for the years ended June 30, 2020 and 2019, respectively.

**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 \$60,000 and \$45,000 during 2020 and 2019, respectively. Another Board member of The Food Bank is an employee of a food distribution company to which The Food Bank paid approximately \$109,000 and \$16,000 during 2020 and 2019, respectively. A third Board member of The Food Bank is an employee of a supermarket chain to which The Food Bank paid approximately \$1,126,000 during 2020.

**Note 20: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 and 2019, comprise the following.



**The Houston Food Bank and Subsidiaries**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
Total financial assets	\$ 51,163,154	\$ 14,687,074
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Donor-restricted endowments	(1,480,342)	(1,417,331)
Financial assets available to meet cash needs for general expenditures within one year	\$ 49,682,812	\$ 13,269,743

The Food Bank receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2020 and 2019, restricted contributions of \$5,693,377 and \$4,786,019, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

The Food Bank's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board-designated endowment of \$6,093,984 is subject to an annual spending rate of 5 percent as described in Note 13. Although The Food Bank does not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Food Bank manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Board has a designated endowment to help meet the operating needs of The Food Bank. To achieve this target, The Food Bank forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves annually.

**Note 21: Subsequent Events**

Subsequent events have been evaluated through November 12, 2020, which is the date the consolidated financial statements were available to be issued.

# The Houston Food Bank and Subsidiaries

## Consolidated Financial Statements

### Years Ended June 30, 2020 and 2019

#### **Note 22: Future Changes in Accounting Principles**

##### ***Revenue Recognition***

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Food Bank will implement the Accounting Standards Update for the fiscal year ended 2021 and is in the process of evaluating the effect the amendment will have on the consolidated financial statements.

##### ***Accounting for Leases***

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for consolidated statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Food Bank will implement the new Accounting Standards Update for the fiscal year ended 2023 and is in the process of evaluating the effect the standard will have on the consolidated financial statements; however, the standard is expected to have a material effect on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

# **The Houston Food Bank and Subsidiaries**

Single Audit Reports

June 30, 2020



**The Houston Food Bank and Subsidiaries**  
**June 30, 2020**

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# The Houston Food Bank and Subsidiaries

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U.S. Department of Agriculture</b>				
SNAP Cluster:				
Passed-through Texas Health and Human Services Commission:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				
10/01/18 - 09/30/19	10.561	74N7009	\$ -	\$ 27,755
10/01/19 - 09/30/20	10.561	74N7009	-	343,900
Total Passed-through Texas Health and Human Services Commission			0	371,655
Passed through Brighter Bites:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program:				
10/01/18 - 09/30/19	10.561	SASS-16-004	-	14,700
10/01/19 - 09/30/20	10.561	SASS-16-004	-	98,883
Total Passed-through Brighter Bites Program			0	113,583
Total SNAP Cluster			0	485,238
Passed through Texas Department of Agriculture:				
Trade Mitigation Program Eligible Recipient Agency Operational Funds:				
10/01/19 - 09/30/20	10.178	01534	-	1,645,233
Total Trade Mitigation Program Eligible Recipient Agency Operational Funds			0	1,645,233
Child and Adult Care Food Program:				
10/01/18 - 09/30/19	10.558	101-01534	-	393,427
10/01/19 - 09/30/20	10.558	101-01534	-	1,461,647
Total Child and Adult Care Food Program			0	1,855,074
Child Nutrition Cluster:				
Summer Food Service Program for Children:				
10/01/18 - 09/30/19	10.559	101-01534	-	1,180,498
10/01/19 - 09/30/20	10.559	101-01534	-	5,572,508
Total Summer Food Service Program for Children			0	6,753,006
Total Child Nutrition Cluster			0	6,753,006
Food Distribution Cluster:				
Commodity Supplemental Food Program:				
10/01/18 - 09/30/19	10.565	TX-101-4001	184,537	184,537
10/01/19 - 09/30/20	10.565	TX-101-4001	810,646	810,646
10/01/18 - 09/30/19	10.565	TX-101-4001	1,638,453	1,638,453 *
10/01/19 - 09/30/20	10.565	TX-101-4001	6,044,304	6,044,304 *
Total Commodity Supplemental Food Program			8,677,940	8,677,940
Emergency Food Assistance Program (Administrative Costs):				
10/01/18 - 09/30/19 - Disaster Assistance	10.568	01534	-	320,800
10/01/19 - 09/30/20 - Disaster Assistance (FFRCA - COVID-19)	10.568	6TX430123	-	860,631
10/01/19 - 09/30/20 - Disaster Assistance (Cares Act - COVID-19)	10.568	6TX810815	-	3,458,157
10/01/18 - 09/30/19	10.568	TX-101-7058	-	806,673
10/01/19 - 09/30/20	10.568	TX-101-7058	-	2,354,981
Total Emergency Food Assistance Program (Administrative Costs)			0	7,801,242

\*Amount represents noncash food commodities

**The Houston Food Bank and Subsidiaries**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2020**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U.S. Department of Agriculture (Continued)</b>				
Emergency Food Assistance Program (Food Commodities):				
10/01/18 - 09/30/19	10.569	101-0452K9	\$ 9,482,829	\$ 9,482,829 *
10/01/19 - 09/30/20	10.569	101-0452K9	38,491,446	38,491,446 *
10/01/19 - 09/30/20 - FFRCA - COVID-19	10.569	01534	336,716	336,716 *
10/01/19 - 09/30/20 - Trade Mitigation	10.569	01534	41,567,821	41,567,821 *
10/01/18 - 09/30/19 - Trade Mitigation	10.569	01534	13,910,239	13,910,239 *
10/01/19 - 09/30/20 - Disaster Assistance	10.569	01534	1,843,607	1,843,607 *
10/01/18 - 09/30/19 - Disaster Assistance	10.569	01534	1,915,772	1,915,772 *
Total Emergency Food Assistance Program (Food Commodities)			<u>107,548,430</u>	<u>107,548,430</u>
Total Food Distribution Cluster			<u>116,226,370</u>	<u>124,027,612</u>
Total Passed-through Texas Department of Agriculture			<u>116,226,370</u>	<u>134,280,925</u>
Total U.S. Department of Agriculture			<u>\$ 116,226,370</u>	<u>\$ 134,766,163</u>
<b>U.S. Department of Homeland Security</b>				
Passed-through the Texas Division of Emergency Management Emergency Management-Disaster Grants - Public Assistance (Presidentially Declared Disasters):				
10/01/19 - 09/30/20 - COVID-19	97.036	FEMA-4332-DR-TX	\$ -	\$ 12,212,365
Total U.S. Department of Homeland Security			<u>0</u>	<u>12,212,365</u>
Total Passed-through Texas Division of Emergency Management			<u>0</u>	<u>12,212,365</u>
Total Expenditures of Federal Awards			<u>\$ 116,226,370</u>	<u>\$ 146,978,528</u>

\*Amount represents noncash food commodities

**The Houston Food Bank and Subsidiaries**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2020**

**Note 1: Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards (the Schedule) include the federal award activity of The Houston Food Bank and Subsidiaries (the Food Bank) under programs of the federal government for the year ended June 30, 2020. The information in the Schedule are presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Food Bank.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Food Bank has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 2: Food Commodities**

Food commodities are expended when distributed to agencies. Distributed food is reported in the schedule of expenditures of federal awards under the Commodity Supplemental Food Program and is separately valued by category 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. As of June 30, 2020, \$810,360 and \$2,011,000 was included in food inventory for Emergency Food Assistance Program and Commodity Supplemental Food Program, respectively, and had not been expended.

**Note 3: Federal Loan Programs**

The Food Bank did not have any federal loan programs during the year ended June 30, 2020.

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

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

We have audited, 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, the consolidated financial statements of The Houston Food Bank and Subsidiaries (the Food Bank), which comprise the consolidated statement of financial position as of June 30, 2020, 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 and have issued our report thereon dated November 12, 2020.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the Food Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Food Bank's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Houston, Texas  
November 12, 2020

**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on Schedule of  
Expenditures of Federal Awards Required by the Uniform Guidance**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited The Houston Food Bank and Subsidiaries' (the Food Bank) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Food Bank's major federal programs for the year ended June 30, 2020. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Food Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

### **Report on Internal Control Over Compliance**

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### ***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the consolidated financial statements of The Houston Food Bank and Subsidiaries, as of and for the year ended June 30, 2020, and have issued our report thereon dated November 12, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by

the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*BKD, LLP*

Houston, Texas  
August 9, 2021

**The Houston Food Bank and Subsidiaries**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2020**

***Summary of Auditor's Results***

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP was:

Unmodified                       Qualified                       Adverse                       Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?     Yes     None reported

Material weakness(es)?     Yes     No

3. Noncompliance considered material to the financial statements was disclosed by the audit?     Yes     No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?     Yes     None reported

Material weakness(es)?     Yes     No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

Unmodified                       Qualified                       Adverse                       Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?     Yes     No

**The Houston Food Bank and Subsidiaries**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2020**

7. The Food Bank's major programs were:

Cluster/Program	CFDA Number
<b>Federal:</b>	
Child Nutrition Cluster:	
Summer Food Service Program for Children	10.559
Food Distribution Cluster:	
Commodity Supplemental Food Program	10.565
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569

8. The threshold used to distinguish between Type A and Type B federal programs was \$3,000,000

9. The Food Bank qualified as a low-risk auditee?  Yes  No

**The Houston Food Bank and Subsidiaries**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2020**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>
No matters are reportable.	

**Findings Required to be Reported by the Uniform Guidance**

<b>Reference Number</b>	<b>Finding</b>
No matters are reportable.	

**The Houston Food Bank and Subsidiaries**  
**Summary of Schedule of Prior Year Audit Findings**  
**Year Ended June 30, 2020**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.