




The Houston Food Bank and Subsidiaries

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2023 and 2022



The Houston Food Bank and Subsidiaries
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June 30, 2023 and 2022

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Houston Food Bank and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Houston Food Bank and Subsidiaries, as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of The Houston Food Bank and Subsidiaries, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Houston Food Bank and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Houston Food Bank and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Houston Food Bank and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2024, on our consideration of The Houston Food Bank and Subsidiaries' internal control over financial reporting and on 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.

FORVIS, LLP

**Houston, Texas
March 29, 2024**

The Houston Food Bank and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 32,609,636	\$ 54,036,899
Accounts receivable:		
Government grants and contracts	7,424,011	9,439,911
Agency, net	6,200	30,877
Other food banks	500,462	142,957
Food and other supplies	22,611,766	24,862,281
Prepaid expenses and other	909,877	1,304,377
Operating pledges receivable, net	173,189	370,972
Operating investments	12,002,248	2,784,098
Notes receivable	4,763,187	4,763,187
Pledges receivable for capital campaign, net	4,024,900	242,676
Investments internally designated for endowment	10,325,197	8,819,811
Property and equipment, net	66,784,552	66,650,910
Right-of-use assets – operating leases	1,186,636	-
Right-of-use assets – finance leases	842,154	-
	<u>\$ 164,164,015</u>	<u>\$ 173,448,956</u>
Total assets		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 5,340,553	\$ 4,173,740
Accrued expenses	4,314,791	1,653,220
Capital lease payable	-	1,495,268
New market tax credits notes payable, net	6,267,426	6,267,426
Refundable advance	-	190,279
Operating lease liabilities, net	1,199,356	-
Finance lease liabilities, net	961,679	-
Total liabilities	<u>18,083,805</u>	<u>13,779,933</u>
Net Assets		
Without donor restrictions	126,909,010	149,954,406
With donor restrictions	<u>19,171,200</u>	<u>9,714,617</u>
Total net assets	<u>146,080,210</u>	<u>159,669,023</u>
Total liabilities and net assets	<u>\$ 164,164,015</u>	<u>\$ 173,448,956</u>

The Houston Food Bank and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Donated food	\$ 233,407,184	\$ -	\$ 233,407,184
Contributions of cash and other financial assets	29,794,009	13,295,406	43,089,415
Contributions of nonfinancial assets	242,355	-	242,355
Special events	1,251,099	-	1,251,099
Direct donor benefit costs	(236,241)	-	(236,241)
Government grants and contracts	18,667,885	-	18,667,885
Investment return	2,584,833	253,075	2,837,908
Freezer rental income	952,110	-	952,110
Sales of purchased food	44,634	-	44,634
Other income	1,393,974	-	1,393,974
	<u>288,101,842</u>	<u>13,548,481</u>	<u>301,650,323</u>
Net Assets Released from Restrictions			
Expenditures for program purposes	3,891,601	(3,891,601)	-
Expiration of time restrictions	200,297	(200,297)	-
	<u>4,091,898</u>	<u>(4,091,898)</u>	<u>-</u>
Total revenues, gains and other support	<u>292,193,740</u>	<u>9,456,583</u>	<u>301,650,323</u>
Expenses			
Program services	296,997,730	-	296,997,730
Management and general	12,228,319	-	12,228,319
Fundraising	6,013,087	-	6,013,087
Total expenses	<u>315,239,136</u>	<u>-</u>	<u>315,239,136</u>
Increase (Decrease) in Net Assets	(23,045,396)	9,456,583	(13,588,813)
Net Assets, Beginning of Year	<u>149,954,406</u>	<u>9,714,617</u>	<u>159,669,023</u>
Net Assets, End of Year	<u>\$ 126,909,010</u>	<u>\$ 19,171,200</u>	<u>\$ 146,080,210</u>

The Houston Food Bank and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Donated food	\$ 272,314,437	\$ -	\$ 272,314,437
Contributions of cash and other financial assets	34,693,643	7,950,290	42,643,933
Contributions of nonfinancial assets	10,366,950	-	10,366,950
Special events	1,025,455	-	1,025,455
Direct donor benefit costs	(219,826)	-	(219,826)
Government grants and contracts	24,429,846	20,585,385	45,015,231
Other grants and contracts	23,460	-	23,460
Investment return	(985,210)	(227,827)	(1,213,037)
Freezer rental income	968,987	-	968,987
Sales of purchased food	86,534	-	86,534
Gain on sales of property and equipment	41,500	-	41,500
Other income	1,297,772	-	1,297,772
	<u>344,043,548</u>	<u>28,307,848</u>	<u>372,351,396</u>
Net Assets Released from Restrictions			
Expenditures for program purposes	22,745,739	(22,745,739)	-
Expiration of time restrictions	449,164	(449,164)	-
	<u>23,194,903</u>	<u>(23,194,903)</u>	<u>-</u>
Total revenues, gains and other support	<u>367,238,451</u>	<u>5,112,945</u>	<u>372,351,396</u>
Expenses			
Program services	351,224,628	-	351,224,628
Management and general	8,228,392	-	8,228,392
Fundraising	6,107,392	-	6,107,392
Total expenses	<u>365,560,412</u>	<u>-</u>	<u>365,560,412</u>
Increase in Net Assets	1,678,039	5,112,945	6,790,984
Net Assets, Beginning of Year	<u>148,276,367</u>	<u>4,601,672</u>	<u>152,878,039</u>
Net Assets, End of Year	<u>\$ 149,954,406</u>	<u>\$ 9,714,617</u>	<u>\$ 159,669,023</u>

The Houston Food Bank and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services					Support Services			Total
	Food Distribution	Child Hunger Initiatives*	Client Assistance Program*	Other Program Initiatives*	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 12,268,661	\$ 2,021,795	\$ 2,691,687	\$ 1,089,784	\$ 18,071,927	\$ 4,809,821	\$ 2,065,041	\$ 6,874,862	\$ 24,946,789
Contract labor and intern stipends	1,553,490	7,316	-	13,208	1,574,014	-	12,749	12,749	1,586,763
Payroll taxes and benefits	2,541,440	430,951	567,874	185,193	3,725,458	1,396,861	422,405	1,819,266	5,544,724
Total salaries and related expenses	16,363,591	2,460,062	3,259,561	1,288,185	23,371,399	6,206,682	2,500,195	8,706,877	32,078,276
Distributed donated food and supplies	195,161,787	23,250	-	-	195,185,037	-	208,084	208,084	195,393,121
Purchased food	53,293,770	2,201,178	-	-	55,494,948	-	-	-	55,494,948
Depreciation and amortization	4,957,788	129,788	-	-	5,087,576	660,152	-	660,152	5,747,728
Supplies and office expense	1,107,250	122,220	198,548	179,549	1,607,567	1,720,426	835,826	2,556,252	4,163,819
Professional fees and contract services	426,188	36,990	9,619	80,994	553,791	2,056,434	800,205	2,856,639	3,410,430
Trucking expenses	1,095,929	206,607	-	11,233	1,313,769	-	-	-	1,313,769
Printing and boxes	117,091	10,000	4,963	-	132,054	44,590	1,200,532	1,245,122	1,377,176
Utilities and telephone	798,905	32,602	23,116	17,882	872,505	68,206	22,328	90,534	963,039
Equipment rental	1,101,135	135,000	-	777	1,236,912	185,698	75,227	260,925	1,497,837
Warehouse expense	1,508,384	25,014	157	-	1,533,555	9,680	17	9,697	1,543,252
Interest	-	-	-	-	-	292,821	-	292,821	292,821
Insurance	1,070,087	9,565	-	62,670	1,142,322	211,461	-	211,461	1,353,783
Agency grants	5,172,348	113	3,480	55,382	5,231,323	-	221,944	221,944	5,453,267
Travel	364,166	53,153	77,220	21,205	515,744	263,864	23,608	287,472	803,216
Advertising	22,733	-	-	3,958	26,691	272,405	124,541	396,946	423,637
Training and seminars	87,145	300	879	-	88,324	78,495	580	79,075	167,399
Repairs and maintenance	3,363,192	196,807	-	-	3,559,999	-	-	-	3,559,999
Other	-	-	-	44,214	44,214	157,405	-	157,405	201,619
Total expenses	<u>\$ 286,011,489</u>	<u>\$ 5,642,649</u>	<u>\$ 3,577,543</u>	<u>\$ 1,766,049</u>	<u>\$ 296,997,730</u>	<u>\$ 12,228,319</u>	<u>\$ 6,013,087</u>	<u>\$ 18,241,406</u>	<u>\$ 315,239,136</u>

*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, 2022

	Program Services				Support Services				Total
	Food Distribution	Child Hunger Initiatives*	Client Assistance Program*	Other Program Initiatives*	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 12,357,938	\$ 1,739,473	\$ 2,532,848	\$ 919,386	\$ 17,549,645	\$ 3,203,003	\$ 1,873,473	\$ 5,076,476	\$ 22,626,121
Contract labor and intern stipends	4,572,559	-	-	-	4,572,559	-	65,225	65,225	4,637,784
Payroll taxes and benefits	2,506,741	343,113	460,231	179,967	3,490,052	935,388	385,055	1,320,443	4,810,495
Total salaries and related expenses	19,437,238	2,082,586	2,993,079	1,099,353	25,612,256	4,138,391	2,323,753	6,462,144	32,074,400
Distributed donated food and supplies	271,406,866	869,316	-	-	272,276,182	-	-	-	272,276,182
Purchased food	31,602,873	214,655	-	279,584	32,097,112	-	-	-	32,097,112
Depreciation	5,641,204	379,359	-	-	6,020,563	567,512	-	567,512	6,588,075
Supplies and office expense	1,155,676	315,331	218,277	262,562	1,951,846	1,251,690	1,120,874	2,372,564	4,324,410
Professional fees and contract services	86,011	34,530	7,166	68,345	196,052	1,027,881	751,361	1,779,242	1,975,294
Trucking expenses	1,133,382	173,039	100	37,324	1,343,845	-	-	-	1,343,845
Printing and boxes	657,594	17,063	-	5,840	680,497	33,246	1,422,812	1,456,058	2,136,555
Utilities and telephone	1,016,555	13,292	33,111	24,021	1,086,979	63,369	19,102	82,471	1,169,450
Equipment rental	1,252,504	292,650	-	-	1,545,154	162,724	72,105	234,829	1,779,983
Warehouse expense	1,410,984	873	155	485	1,412,497	842	270	1,112	1,413,609
Interest	121,884	-	-	-	121,884	166,725	-	166,725	288,609
Insurance	1,221,859	79,443	-	119,070	1,420,372	180,464	-	180,464	1,600,836
Agency grants	1,788,449	-	-	52,456	1,840,905	11,936	233,793	245,729	2,086,634
Travel	115,981	59,150	71,035	23,473	269,639	114,912	16,022	130,934	400,573
Advertising	41,234	8,143	-	3,959	53,336	336,013	144,006	480,019	533,355
Training and seminars	91,149	-	4,800	1,047	96,996	140,485	3,294	143,779	240,775
Repairs and maintenance	3,057,186	125,703	-	1,983	3,184,872	26,843	-	26,843	3,211,715
Other	13,324	17	-	300	13,641	5,359	-	5,359	19,000
Total expenses	<u>\$ 341,251,953</u>	<u>\$ 4,665,150</u>	<u>\$ 3,327,723</u>	<u>\$ 1,979,802</u>	<u>\$ 351,224,628</u>	<u>\$ 8,228,392</u>	<u>\$ 6,107,392</u>	<u>\$ 14,335,784</u>	<u>\$ 365,560,412</u>

*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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Increase (decrease) in net assets	\$ (13,588,813)	\$ 6,790,984
Items not requiring (providing) operating activities cash flows:		
Depreciation and amortization	5,747,728	6,588,075
Amortization of debt issuance costs	-	19,794
Amortization of discount on contributions receivable	1,335,776	-
Noncash operating lease expense	12,720	-
Changes in food and other supplies inventory	2,250,515	(296,184)
Contribution of long-lived assets	-	(10,325,000)
Contributions of nonfinancial assets	(242,355)	-
Contributions restricted for capital campaign	(1,380,000)	-
Contribution received restricted for endowment	(205)	(52,431)
Realized and unrealized (gain)/loss on investments	(2,214,343)	1,632,419
Changes in:		
Accounts receivable	1,683,072	(4,255,953)
Pledges receivable	(6,852,217)	(250,595)
Prepaid expense and other	636,855	394,407
Accounts payable and accrued expenses	3,828,384	(1,803,835)
Refundable advance	(190,279)	(20,395,106)
	<u>(8,973,162)</u>	<u>(21,953,425)</u>
Investing Activities		
Purchase of property and equipment	(6,723,524)	(4,751,558)
Proceeds from disposition of investments	100,659,571	199,314
Purchase of investments	(109,168,764)	(451,901)
Proceeds from disposition of property and equipment	-	153,741
	<u>(15,232,717)</u>	<u>(4,850,404)</u>
Financing Activities		
Proceeds from contributions restricted for capital campaign	3,312,000	86,746
Payments on financing lease liability	(533,589)	-
Principal payments on capital lease	-	(476,964)
Contributions received restricted for endowment	205	52,431
	<u>2,778,616</u>	<u>(337,787)</u>
Net Decrease in Cash and Cash Equivalents	(21,427,263)	(27,141,616)
Cash and Cash Equivalents, Beginning of Year	<u>54,036,899</u>	<u>81,178,515</u>
Cash and Cash Equivalents, End of Year	<u>\$ 32,609,636</u>	<u>\$ 54,036,899</u>
Supplemental Cash Flows Information		
Interest paid	\$ 292,800	\$ 288,609
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 598,849	\$ -
Operating cash flows from operating leases	\$ 132,506	\$ -
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,819,853	\$ -
ROU assets obtained in exchange for new finance lease liabilities	\$ 1,301,511	\$ -

The Houston Food Bank and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

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 (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% membership interest and MBKFF has a 0.10% membership interest in QALICB. QALICB was organized to acquire and remodel a warehouse facility (Portwall facility) for use by The Houston Food Bank.

In fiscal year 2023, operations returned to pre COVID-19 pandemic levels. The Houston Food Bank distributed over 148,000,000 pounds of food in 2023 and over 181,000,000 pounds of food in 2022. Contributions decreased in fiscal year 2023 due to reduced impact of COVID-19 and fundraising seasonality.

The U.S. Department of Agriculture (USDA) administers The Emergency Food Assistance Program (TEFAP), which is USDA's primary outlet for foods purchased through market support mechanisms. Additionally, USDA has made 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 over 53,000,000 pounds of food under TEFAP in 2023 and over 94,000,000 in 2022. Distribution decreased due to the discontinuation of the Trade Mitigation Food Program, CARES Act, and FFCRA programs during fiscal year 2022.

Principles of Consolidation

The consolidated financial statements include 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.

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 and Cash Equivalents

The Food Bank considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2023, cash equivalents consisted primarily of treasury bills.

The Houston Food Bank and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

At June 30, 2023, The Food Bank's cash accounts exceeded federally insured limits per institution by approximately \$6,381,000.

Accounts Receivable

Accounts receivable consist 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 the receivables 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 collectibility of the balances will change in the near term resulting in a change in the carrying value of accounts receivable. An allowance of \$40,001 and \$109,001 was recorded as of June 30, 2023 and 2022, respectively.

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 the collectibility 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 include 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 other supplies are recognized as expenses 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 Houston Food Bank and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

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 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, 2023 and 2022.

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:

Nature of the Gift	Value Recognized
<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 the date of gift – cash and other assets	Fair value
Received at the date of gift – property, equipment, and long-lived assets	Estimated fair value

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Nature of the Gift	Value Recognized
Expected to be collected within one year	Net realizable value
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.

Contributions of Nonfinancial Assets

Donated materials and use of facilities are recognized at fair value as a 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 2023 and 2022, volunteers contributed approximately 476,000 and 386,000 hours (unaudited), respectively, to The Food Bank.

Government Grants and Contracts

Support funded by grants is recognized as The Houston 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.

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.

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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 organizations 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 fundraising categories based on management determination of the nature of the costs and employee time expended.

To enhance 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. The 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.

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.

The 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 the 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% 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.

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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.

Teachers Aid program provides the supplies kids need to succeed. Many children cannot 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 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.

The Community Warehouse and Logistics Training program is a job training program that provides participants with forklift certification, the OSHA-1- General Industry Certificate, and other job-training skill to enter the workforce.

General Litigation

The Food Bank is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets, and cash flows of The Food Bank. Events could occur that would change this estimate materially in the near term.

Note 2. Pledges Receivable

Pledges receivable as of June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Total pledges receivable	\$ 5,618,445	\$ 693,742
Allowance for uncollectible pledges receivable	(40,001)	(40,001)
Discount to estimated present value at 0.735% to 0.857%	<u>(1,380,355)</u>	<u>(40,093)</u>
Pledges receivable, net	<u>\$ 4,198,089</u>	<u>\$ 613,648</u>

Pledges receivable at June 30, 2023 are scheduled to be collected as follows:

Receivable in one year	\$ 1,509,170
Receivable in one to five years	<u>4,109,275</u>
Total pledges receivable	<u>\$ 5,618,445</u>

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On June 30, 2023, approximately 85% of pledges receivable are due from two donors. On June 30, 2022, approximately 29% of pledges receivable are due from three donors.

Note 3. Conditional Gifts

The Food Bank has received the following conditional promises to give at June 30, 2023 and 2022 that are not recognized in the consolidated financial statements:

	<u>2023</u>	<u>2022</u>
Conditional promise to give upon the board of directors final approval of the construction of the second distribution site.	\$ 4,500,000	\$ -
	<u>\$ 4,500,000</u>	<u>\$ -</u>

Note 4. Investments

Investments on June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Debt securities	\$ 4,191,075	\$ 4,127,222
Common stock	8,375,606	4,156,322
International equity mutual funds	-	1,565,082
Domestic equity mutual funds	-	1,525,703
Asset-backed securities	17,944	26,394
Money market mutual funds	198,994	203,186
U.S. Treasury bills	9,543,826	-
Total investments	<u>\$ 22,327,445</u>	<u>\$ 11,603,909</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.

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

	<u>2023</u>	<u>2022</u>
Interest and dividends earned on investments	\$ 449,709	\$ 245,526
Interest earned on notes receivable	173,856	173,856
Realized and unrealized gain (loss) on investments	<u>2,214,343</u>	<u>(1,632,419)</u>
Total investments return (loss)	<u>\$ 2,837,908</u>	<u>\$ (1,213,037)</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
- 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

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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, 2023 and 2022.

	2023			Total
	Level 1	Level 2	Level 3	
Common stock:				
American depository receipt	\$ 3,851,844	\$ -	\$ -	\$ 3,851,844
Communication services	187,818	-	-	187,818
Consumer discretionary	411,960	-	-	411,960
Consumer staples	416,437	-	-	416,437
Energy	490,315	-	-	490,315
Financial	456,083	-	-	456,083
Healthcare	411,544	-	-	411,544
Industrial	325,562	-	-	325,562
Information technology	1,655,960	-	-	1,655,960
Materials	168,083	-	-	168,083
Debt securities:				
Corporate bonds and notes	503,836	669,559	-	1,173,395
Municipal bonds	-	3,017,680	-	3,017,680
Asset-backed securities	-	17,944	-	17,944
Money market mutual funds	198,994	-	-	198,994
U.S. Treasury bills	9,543,826	-	-	9,543,826
	<u>\$ 18,622,262</u>	<u>\$ 3,705,183</u>	<u>\$ -</u>	<u>\$ 22,327,445</u>
Total assets measured at fair value				
	<u>\$ 18,622,262</u>	<u>\$ 3,705,183</u>	<u>\$ -</u>	<u>\$ 22,327,445</u>
	2022			Total
	Level 1	Level 2	Level 3	
Common stock:				
American depository receipt	\$ 156,192	\$ -	\$ -	\$ 156,192
Communication services	316,365	-	-	316,365
Consumer discretionary	331,846	-	-	331,846
Consumer staples	448,534	-	-	448,534
Energy	426,241	-	-	426,241
Financial	383,027	-	-	383,027
Healthcare	415,322	-	-	415,322
Industrial	274,474	-	-	274,474
Information technology	1,261,108	-	-	1,261,108
Materials	143,213	-	-	143,213
Debt securities:				
Corporate bonds and notes	-	1,072,384	-	1,072,384
Municipal bonds	-	3,054,838	-	3,054,838
Domestic equity mutual funds:				
Large-cap	1,144,826	-	-	1,144,826
Small/mid-cap	380,877	-	-	380,877
International equity mutual funds:				
Large-cap	967,522	-	-	967,522
Strategic	448,045	-	-	448,045
Emerging markets	149,515	-	-	149,515
Asset-backed securities	-	26,394	-	26,394
Money market mutual funds	203,186	-	-	203,186
	<u>\$ 7,450,293</u>	<u>\$ 4,153,616</u>	<u>\$ -</u>	<u>\$ 11,603,909</u>
Total assets measured at fair value				
	<u>\$ 7,450,293</u>	<u>\$ 4,153,616</u>	<u>\$ -</u>	<u>\$ 11,603,909</u>

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

- Common stock and mutual funds are 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.
- Treasury bills are valued at quoted market prices on the active market.

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 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%. Interest is payable quarterly beginning January 2017 until December 2047. All principal and unpaid interest are 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 2023 and 2022 was approximately \$174,000.

Note 7. Property and Equipment

Property and equipment at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 14,673,401	\$ 14,673,401
Buildings and improvements	53,637,318	53,361,496
Furniture and equipment	19,799,970	18,345,633
Motor vehicles	20,158,182	22,611,400
Construction in progress	5,420,944	1,631,052
Data development	343,750	-
	<u>114,033,565</u>	<u>110,622,982</u>
Total property and equipment, at cost		
Less accumulated depreciation	<u>(47,249,013)</u>	<u>(43,972,072)</u>
Property and equipment, net	<u>\$ 66,784,552</u>	<u>\$ 66,650,910</u>

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Note 8. New Market Tax Credits Notes Payable

QALICB executed a 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 the new market tax credits loan agreement, each loan accrues interest at 3.42% payable quarterly beginning in March 2017 with the principal balance due 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.

	<u>2023</u>	<u>2022</u>
Total new market tax credits notes payable	\$ 6,500,000	\$ 6,500,000
Less unamortized debt issuance costs	<u>(232,574)</u>	<u>(232,574)</u>
New market tax credits notes payable, net	<u>\$ 6,267,426</u>	<u>\$ 6,267,426</u>

The balances outstanding on the new market tax credits notes payable, maturity dates, and repayment terms at June 30, 2023 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	<u>1,736,813</u>
Total new market tax credits notes payable	<u>\$ 6,500,000</u>

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.

Interest recognized as expense totaled approximately \$222,000 and \$222,000 in 2023 and 2022, respectively.

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Note 9. Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions on June 30 are restricted for the following purposes or periods.

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Capital expenditures	\$ 12,528,758	\$ 4,043,992
Child hunger initiatives	1,578,119	1,609,408
Food distribution	1,744,541	1,320,396
Client assistance programs	499,988	100,106
Other programs	<u>597,532</u>	<u>368,184</u>
	<u>16,948,938</u>	<u>7,442,086</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>213,190</u>	<u>506,596</u>
Endowments:		
Accumulated investment gains subject to appropriation and expenditure	960,048	717,116
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	<u>1,049,024</u>	<u>1,048,819</u>
	<u>2,009,072</u>	<u>1,765,935</u>
Total	<u>\$ 19,171,200</u>	<u>\$ 9,714,617</u>

Net Assets Without Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 118,884,762	\$ 142,900,530
Board-designated endowment funds for general operations	<u>8,024,248</u>	<u>7,053,876</u>
Net assets without donor restrictions	<u>\$ 126,909,010</u>	<u>\$ 149,954,406</u>

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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:

	<u>2023</u>	<u>2022</u>
Expiration of time restrictions	\$ 200,297	\$ 449,164
Satisfaction or purpose restrictions:		
Capital expenditures	635,734	146,783
Child hunger initiatives	2,226,051	1,215,882
Food distribution	774,980	21,108,294
Client assistance program	202,515	60,189
Other programs	52,321	214,591
	<u>3,891,601</u>	<u>22,745,739</u>
	<u>\$ 4,091,898</u>	<u>\$ 23,194,903</u>

Note 10. 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 is reported as net assets with donor restrictions until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Endowment considers the following factors in making a determination appropriate or accumulating 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 the investment
6. Other resources of The Food Bank
7. The investment policies of the endowment

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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% 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%, 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% 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 would result from unfavorable market fluctuations that occurred shortly after investment of new contributions without donor restrictions and continued appropriation for certain purposes that would be deemed prudent by the governing body. There were no underwater endowments as of June 30, 2023 and 2022.

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Endowment net asset composition as of June 30, 2023 and 2022 is as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 8,024,248	\$ -	\$ 8,024,248
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	1,049,024	1,049,024
Accumulated investment gains subject to appropriation and expenditure	-	960,048	960,048
Endowment net assets	<u>\$ 8,024,248</u>	<u>\$ 2,009,072</u>	<u>\$ 10,033,320</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,053,876	\$ -	\$ 7,053,876
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	1,048,819	1,048,819
Accumulated investment gains subject to appropriation and expenditure	-	717,116	717,116
Endowment net assets	<u>\$ 7,053,876</u>	<u>\$ 1,765,935</u>	<u>\$ 8,819,811</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ 8,038,015	\$ 1,952,571	\$ 9,990,586
Contributions	80	52,448	52,528
Investment return, net:			
Interest and dividends	104,267	25,328	129,595
Net realized and unrealized loss	(1,042,146)	(253,155)	(1,295,301)
Investment management fees	(46,340)	(11,257)	(57,597)
Total investment return, net	(984,219)	(239,084)	(1,223,303)
Endowment net assets, June 30, 2022	7,053,876	1,765,935	8,819,811
Contributions	-	205	205
Investment return, net:			
Interest and dividends	115,493	28,914	144,407
Net realized and unrealized gain	895,394	224,161	1,119,555
Investment management fees	(40,515)	(10,143)	(50,658)
Total investment return, net	970,372	242,932	1,213,304
Endowment net assets, June 30, 2023	\$ 8,024,248	\$ 2,009,072	\$ 10,033,320

Note 11. Contributed Nonfinancial Assets

Donated Food

The majority of food distributed by The Food Bank is received by contributions from the general public and the USDA. 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 years ended June 30, 2023 and 2022, The Food Bank separately valued items by 22 food-only product categories and six non-food-only categories.

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The total value of contributed food for the years ended June 30, 2023 and 2022 is as follows:

	2023			2022		
	Pounds	Value Per Pound	Amount	Pounds	Value Per Pound	Amount
General donations – food and household items	116,947,585	\$0.68 to \$15.00	\$ 177,030,400	87,940,547	\$0.68 to \$15.00	\$ 167,319,161
USDA	34,449,240	\$0.68 to \$15.00	56,376,784	52,085,682	\$0.68 to \$15.00	104,995,276
Total	<u>151,396,825</u>		<u>\$ 233,407,184</u>	<u>140,026,229</u>		<u>\$ 272,314,437</u>

Other Contributed Nonfinancial Assets

For the years ended December 31, 2023 and 2022, other contributed nonfinancial assets recognized within the consolidated statements of activities included:

	2023	2022
Land	\$ -	\$ 10,325,000
Gift cards	242,355	41,950
	<u>\$ 242,355</u>	<u>\$ 10,366,950</u>

The nonfinancial assets listed above were recognized within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

The contributed land will be used for the construction of The Houston Food Bank – New Campus located at 2121 W. Mount Houston Rd., Houston, TX, 77038. In valuing the contributed land, the Food Bank recorded the contributed land based on the fair market value determined by certified real estate appraisers.

Gift cards will be used for community and partners' initiatives and were valued based on the monetary value.

Note 12. Grant Commitments

The Houston Food Bank receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the consolidated financial statements of The Food Bank are prepared on an accrual basis, all earned portions of the grants not yet received as of June 30, 2023 have been recorded as receivables.

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Following are grant commitments as of June 30, 2023 and the amount remaining to be drawn or earned by the end of the term.

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned as of June 30, 2023</u>	<u>Funding Available</u>
Federal Grants				
U.S. Department of Agriculture				
Food Bank Capacity Building Grant	11/9/21 – 4/30/25	\$ 14,554,280	\$ 3,012,455	\$ 11,541,825
Summer Food Program	10/1/22 – 9/30/23	2,974,548	793,254	2,181,294
Supplemental Nutrition Assistance Program (Nutrition ED)				
	10/1/22 – 9/30/23	3,933,572	1,880,854	2,052,718
Local Food Purchase Assistance	10/1/22 – 9/30/23	15,813,195	1,004,878	14,808,317
U.S. Department of Treasury				
Coronavirus State and Local Fiscal Recovery Funds (ARPA)				
	11/1/22 – 4/30/25	3,500,000	250,606	3,249,394
Total Grant Commitments		<u>\$ 40,775,595</u>	<u>\$ 6,942,047</u>	<u>\$ 33,833,548</u>

Note 13. Government Grants and Contracts

The Food Bank is party to contracts with federal, state, and local 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:

	<u>2023</u>	<u>2022</u>
Program and administrative costs:		
U.S. Department of Agriculture	\$ 12,547,854	\$ 18,611,103
U.S. Department of Housing and Urban Development	1,601,225	-
Harris County, Texas	315,909	4,374,176
City of Houston, Texas	30,000	-
Texas Department of Emergency Management	-	20,585,385
Texas Health and Human Services Commission	1,470,163	1,444,567
Texas Department of Agriculture	2,702,734	-
	<u>18,667,885</u>	<u>45,015,231</u>
Commodities:		
U.S. Department of Agriculture	<u>56,376,784</u>	<u>104,995,276</u>
	<u>56,376,784</u>	<u>104,995,276</u>
Total government grants and contracts	<u>\$ 75,044,669</u>	<u>\$ 150,010,507</u>

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The grants from federal, state and local 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 14. 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% through April 2025. Aggregate annual maturities of payments on capital lease obligations at 2022 are as follows:

	Capital Lease Obligations
2023	\$ 598,848
2024	598,848
2025	449,136
	<u>1,646,832</u>
Less amount representing interest	<u>(151,564)</u>
Present value of future minimum lease payments	<u><u>\$ 1,495,268</u></u>

Capitalized assets under the lease were \$1,301,511, net of accumulated depreciation as of June 30, 2022. See Note 15 for Change in Accounting Principle.

Note 15. Industrial Lease

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. The Food Bank vacated the warehouse between December 1, 2020 and July 31, 2021. The Food Bank amended the lease on August 1, 2021 for six months set to expire on January 31, 2022. Rental expense of \$329,000 has been recognized in the consolidated financial statements for the year ended June 30, 2022.

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. The Food Bank entered in a month-to-month lease between February 1, 2021 and July 31, 2021. The Food Bank amended the lease on August 1, 2021 for 12 months set to expire on July 31, 2022. Rental expense of \$762,300 has been recognized in the consolidated financial statements for the year ended June 30, 2022.

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Note 16. Leases

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Food Bank adopted Topic 842 on July 1, 2022 (the effective date) using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Food Bank elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Also, The Food Bank elected to keep short-term leases with an initial term of 12 months or less off the consolidated statement of financial position. The Food Bank did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2022.

The impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$1,819,853 and \$1,819,853, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did affect the consolidated statements of activities and cash flows.

The cumulative effect of the changes made to the consolidated statements of financial position for the adoption of this standard was as follows:

	June 30 2022 As Reported	ASC 842 Adjustment on July 1 2022	July 1 2022 As Adjusted
Assets			
Net property and equipment ^(A)	\$ 66,650,910	\$ (1,301,511)	\$ 65,349,399
Right-of-use assets – finance leases ^(A)	-	1,301,511	1,301,511
Right-of-use assets – operating leases ^(B)	-	1,819,853	1,819,853
Liabilities			
Operating lease liabilities ^(C)	-	1,819,853	1,819,853
Capital lease liability ^(A)	1,495,268	(1,495,268)	-
Finance lease liabilities ^(A)	-	1,495,268	1,495,268

(A) The adjustment represents the derecognition of financing obligations and reclassification to right-of-use assets – finance leases and finance lease liabilities.

(B) The adjustment represents the capitalization of right-of-use assets – operating leases.

(C) The adjustment represents the recognition of operating lease liabilities.

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Accounting Policies

The Food Bank determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Food Bank determines lease classification as operating or finance at the lease commencement date.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Food Bank has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that The Food Bank is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Food Bank has elected not to record leases with an initial term of 12 months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Food Bank has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of trucks for the use of food deliveries. Termination of the leases generally is prohibited unless there is a violation under the lease agreement.

Operating Leases

The Food Bank has a lease for office space that expires in 2024. This lease requires The Food Bank to pay for insurance and certain utilities and maintenance costs. Lease payments have an escalating fee schedule of 2.50% increase each year. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

The Food Bank has leases for office-related equipment that expire in various years through 2027. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

All Leases

The Food Bank has no material related-party leases.

The Food Bank's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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Quantitative Disclosures

The lease cost and other required information for the year ended June 30, 2023 are:

Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$	459,357
Interest on lease liabilities		70,520
Operating lease cost		672,287
		<hr/>
Total lease cost	\$	1,202,164
		<hr/> <hr/>

Other information		
Weighted-average remaining lease term		
Finance leases		1.75 years
Operating leases		1.91
Weighted-average discount rate		
Finance leases		2.85%
Operating leases		2.87%

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2023 are as follows:

	Finance Leases	Operating Leases
	<hr/>	<hr/>
2024	\$ 602,731	\$ 734,249
2025	445,254	387,623
2026	-	56,869
2027	-	52,126
2028	-	-
Thereafter	-	-
	<hr/>	<hr/>
Total future undiscounted lease payments	1,047,985	1,230,867
Less imputed interest	86,306	31,511
	<hr/>	<hr/>
Lease liabilities	<u>\$ 961,679</u>	<u>\$ 1,199,356</u>

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Note 17. Freezer Lease

Adoption of FASB Topic 842 elections described above in Note 15 were also elected for lease revenue.

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, 2023:

2024	\$	944,322
2025		944,322
2026		954,476
2027		974,784
2028		974,784
Thereafter through 2030		<u>2,599,424</u>
Total	\$	<u>7,392,112</u>

Rental income of \$952,110 and \$968,987 has been recognized in the consolidated financial statements related to this lease agreement for 2023 and 2022, respectively.

Capitalized asset under the lease was \$5,429,865 and \$5,631,247 net of accumulated depreciation as of June 30, 2023 and 2022, respectively.

Note 18. Employee Pension Plan

The Food Bank has a defined contribution 401(k) plan for employees who meet the certain length of service requirements. The Food Bank matches 50% of employees' contribution up to 6% 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 \$682,508 and \$368,553 for the years ended June 30, 2023 and 2022, respectively.

Note 19. Related-Party Transactions

A board member of The Food Bank is an employee of a food distribution company to which The Food Bank paid approximately \$60,794 and \$39,864 during 2023 and 2022, respectively.

Outstanding pledges receivable for capital campaign at June 30, 2023 includes \$5,375,254 due from board members.

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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, 2023 and 2022 comprise the following:

	<u>2023</u>	<u>2022</u>
Total financial assets	\$ 54,937,081	\$ 65,640,808
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Donor-restricted endowments	<u>(2,009,072)</u>	<u>(1,765,935)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 52,928,009</u>	<u>\$ 63,874,873</u>

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, 2023 and 2022, restricted contributions of \$4,639,309 and \$4,944,732, 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 \$8,024,248 is subject to an annual spending rate of 5% as described in Note 9. 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 March 29, 2024, which is the date the consolidated financial statements were available to be issued.