The Houston Food Bank and Subsidiaries

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2022 and 2021

The Houston Food Bank and Subsidiaries

June 30, 2022 and 2021

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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, 2022 and 2021, and the related consolidated statements of activities , functional expenses and cash flow 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, 2022 and 2021, 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). 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 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 within one year after the date that these consolidated financial statements are available to be issued.

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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 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, 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.

FORVIS, LLP

Houston, Texas
March 31, 2023

The Houston Food Bank and Subsidiaries

Consolidated Statements of Financial Position

June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 54,036,899	$ 81,178,515
Accounts receivable:		
Government grants and contracts	9,439,911	5,351,804
Agency, net	30,877	5,988
Other food banks	142,957	-
Food and other supplies	24,862,281	24,566,097
Prepaid expenses	1,304,377	1,698,784
Operating pledges receivable, net	370,972	449,799
Operating investments	2,784,098	2,993,155
Notes receivable	4,763,187	4,763,187
Pledges receivable for capital campaign, net	242,676	-
Investments internally designated for endowment	8,819,811	9,990,586
Property and equipment, net	66,650,910	58,316,168
Total assets	$ 173,448,956	$ 189,314,083
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 4,173,740	$ 5,475,677
Accrued expenses	1,653,220	2,155,118
Capital lease payable	1,495,268	1,972,232
New market tax credits notes payable, net	6,267,426	6,247,632
Refundable advance	190,279	20,585,385
Total liabilities	13,779,933	36,436,044
Net Assets		
Without donor restrictions	149,954,406	148,276,367
With donor restrictions	9,714,617	4,601,672
Total net assets	159,669,023	152,878,039
Total liabilities and net assets	$ 173,448,956	$ 189,314,083

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 loss	(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
	344,043,548	28,307,848	372,351,396
Net Assets Released From Restrictions			
Expenditures for program purposes	22,745,739	(22,745,739)	-
Expiration of time restrictions	449,164	(449,164)	-
	23,194,903	(23,194,903)	0
Total revenues, gains and other support	367,238,451	5,112,945	372,351,396
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	365,560,412	0	365,560,412
Increase in Net Assets	1,678,039	5,112,945	6,790,984
Net Assets, Beginning of Year	148,276,367	4,601,672	152,878,039
Net Assets, End of Year	$ 149,954,406	$ 9,714,617	$ 159,669,023

The Houston Food Bank and Subsidiaries

Consolidated Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Donated food	$ 329,941,901	$ -	$ 329,941,901
Contributions of cash and other financial assets	69,582,566	6,421,350	76,003,916
Contributions of nonfinancial assets	275,789	-	275,789
Special events	7,284	-	7,284
Direct donor benefit costs	(2,800)	-	(2,800)
Government grants and contracts	25,120,402	19,225,459	44,345,861
Other grants and contracts	729,429	-	729,429
Investment return	2,236,967	482,477	2,719,444
Freezer lease income	849,109	-	849,109
Sales of purchased food	89,185	-	89,185
Other income	326,804	-	326,804
	429,156,636	26,129,286	455,285,922
Net Assets Released From Restrictions			
Expenditures for program purposes	29,228,847	(29,228,847)	-
Expiration of time restrictions	443,980	(443,980)	-
	29,672,827	(29,672,827)	0
Total revenues, gains and other support	458,829,463	(3,543,541)	455,285,922
Expenses			
Program services	413,944,723	-	413,944,723
Management and general	8,243,350	-	8,243,350
Fundraising	5,794,250	-	5,794,250
Total expenses	427,982,323	0	427,982,323
Increase (Decrease) in Net Assets	30,847,140	(3,543,541)	27,303,599
Net Assets, Beginning of Year	117,429,227	8,145,213	125,574,440
Net Assets, End of Year	$ 148,276,367	$ 4,601,672	$ 152,878,039

The Houston Food Bank and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services					Support Services			
	Food Distribution	Child Hunger Initiatives*	Client Assistance Program*	Other Program Initiatives*	Total Program Services	Management and General	Fundraising	Total Support Services	Total
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	$ 341,251,953	$ 4,665,150	$ 3,327,723	$ 1,979,802	$ 351,224,628	$ 8,228,392	$ 6,107,392	$ 14,335,784	$ 365,560,412

*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, 2021

	Program Services					Support Services			
	Food Distribution	Child Hunger Initiatives*	Client Assistance Program*	Other Program Initiatives*	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 12,150,469	$ 1,884,138	$ 2,304,422	$ 713,012	$ 17,052,041	$ 3,374,224	$ 1,837,104	$ 5,211,328	$ 22,263,369
Contract labor and intern stipends	8,077,983	-	-	10,000	8,087,983	-	58,537	58,537	8,146,520
Payroll taxes and benefits	2,451,310	351,876	421,203	138,282	3,362,671	720,694	363,689	1,084,383	4,447,054
Total salaries and related expenses	22,679,762	2,236,014	2,725,625	861,294	28,502,695	4,094,918	2,259,330	6,354,248	34,856,943
Distributed donated food and supplies	326,187,734	712,732	-	4,342	326,904,808	-	-	-	326,904,808
Purchased food	27,552,747	6,174,208	-	340,968	34,067,923	-	7,042	7,042	34,074,965
Depreciation	5,348,499	463,543	-	-	5,812,042	561,364	-	561,364	6,373,406
Supplies and office expense	1,496,773	185,083	216,652	219,717	2,118,225	1,166,050	921,545	2,087,595	4,205,820
Professional fees and contract services	16,591	39,910	10,461	58,679	125,641	1,517,782	862,895	2,380,677	2,506,318
Trucking expenses	2,063,126	272,407	-	40,009	2,375,542	-	-	-	2,375,542
Printing and boxes	533,975	42,999	-	5,840	582,814	107,868	1,254,310	1,362,178	1,944,992
Utilities and telephone	1,021,155	17,125	30,323	22,061	1,090,664	161,562	17,557	179,119	1,269,783
Equipment rental	3,679,251	450,801	-	1,970	4,132,022	108,196	-	108,196	4,240,218
Warehouse expense	1,770,677	11,997	427	790	1,783,891	10,314	-	10,314	1,794,205
Interest	153,774	-	-	-	153,774	222,300	-	222,300	376,074
Insurance	703,162	49,371	-	68,679	821,212	(10,222)	-	(10,222)	810,990
Agency grants	2,062,994	-	-	78,300	2,141,294	39,384	249,675	289,059	2,430,353
Travel	81,562	25,244	51,203	11,861	169,870	53,110	5,802	58,912	228,782
Advertising	10,472	-	-	4,775	15,247	136,639	11,518	148,157	163,404
Training and seminars	78,591	1,731	25	6,472	86,819	42,568	4,576	47,144	133,963
Repairs and maintenance	2,736,781	201,546	18,086	350	2,956,763	1,992	-	1,992	2,958,755
Other	103,302	175	-	-	103,477	29,525	200,000	229,525	333,002
Total expenses	$ 398,280,928	$ 10,884,886	$ 3,052,802	$ 1,726,107	$ 413,944,723	$ 8,243,350	$ 5,794,250	$ 14,037,600	$ 427,982,323

*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, 2022 and 2021

	2022	2021
Operating Activities		
Increase in net assets	$ 6,790,984	$ 27,303,599
Items not requiring (providing) operating activities cash flows:		
Depreciation of fixed assets	6,588,075	6,373,406
Amortization of debt issuance costs	19,794	9,897
Changes in food and other supplies inventory	(296,184)	(3,099,546)
Contribution of long-lived assets	(10,325,000)	(36,000)
Contribution received restricted for endowment	(52,431)	-
Realized and unrealized (gain)/loss on investments	1,632,419	(2,309,876)
Changes in:		
Accounts receivable	(4,255,953)	8,558,784
Pledges receivable	(250,595)	328,820
Prepaid expense	394,407	(522,369)
Accounts payable and accrued expenses	(1,803,835)	(6,620,974)
Refundable advance	(20,395,106)	17,385,385
Net cash provided by (used in) operating activities	(21,953,425)	47,371,126
Investing Activities		
Purchase of property and equipment	(4,751,558)	(6,533,033)
Proceeds from disposition of investments	199,314	369,702
Purchase of investments	(451,901)	(549,160)
Proceeds from disposition of property and equipment	153,741	-
Net cash used in investing activities	(4,850,404)	(6,712,491)
Financing Activities		
Proceeds from contributions restricted for capital campaign	86,746	296,207
Principal payments on capital lease	(476,964)	(445,074)
Contributions received restricted for endowment	52,431	-
Net cash used in financing activities	(337,787)	(148,867)
Net Increase (Decrease) in Cash and Cash Equivalents	(27,141,616)	40,509,768
Cash and Cash Equivalents, Beginning of Year	81,178,515	40,668,747
Cash and Cash Equivalents, End of Year	$ 54,036,899	$ 81,178,515
Supplemental Cash Flows Information		
Interest paid	$ 288,609	$ 367,074

See Notes to Consolidated Financial Statements.

The Houston Food Bank and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 2021, the coronavirus disease (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 Act* (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 2021, the pandemic was still on-going and The Houston Food Bank continued its efforts to serve the community. The programs operated under the CARES Act and FFCRA discontinued during fiscal year 2022.

As of the end of fiscal year 2021, the COVID-19 pandemic still had a significant impact on The Houston Food Bank's operations. The Houston Food Bank distributed over 181,000,000 pounds of food in 2022 and over 233,000,000 pounds of food in 2021. Contributions decreased in fiscal year 2022 due to reduced impact of COVID-19.

During fiscal year 2021 and 2022, Consumer Price Index (CPI) measured by the Bureau of Labor Statistics of the U.S. Department of Labor reached 5.4 percent and 9.1 percent, respectively. Inflation mainly impacts the purchased food costs, transportation, labor, and fundraising.

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 113,822,831 pounds of food under the Trade Mitigation Food Program in fiscal years 2021. The Trade Mitigation Food Program discontinued during fiscal year 2022.

Beginning in the Spring of 2020 and continuing into 2021, under the statutory authority of the CARES Act, the USDA through the Texas Department of Agriculture (TDA) was administering a program to reimburse incurred costs of distributing USDA foods relating to the COVID-19 crisis. The bulk of this food was being distributed through TEFAP, which is USDA's primary outlet for foods purchased through market support mechanisms. Additionally, USDA was making CARES Act funds available to assist with the operational costs of the receipt, storage, and distribution of these foods. The Houston Food Bank received $2,355,298 of CARES Act funds in fiscal year 2021. The CARES Act program discontinued during fiscal year 2022.

During fiscal year 2021, under the statutory authority of the FFCRA, the USDA through the TDA was administering a program to reimburse incurred costs of distributing USDA foods relating to the COVID-19 crisis. The bulk of this food was being distributed through TEFAP, which is USDA's primary outlet for foods purchased through market support mechanisms. Additionally, USDA was 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 $1,783,872 FFCRA funds in fiscal year 2021. FFCRA program discontinued during fiscal year 2022.

In the Spring of 2020 and continuing into 2021, under the statutory authority of the Texas Government Code, Chapter 418 and the CARES Act, 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, were 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 $23,647,000 in fiscal years 2021. The Federal Emergency Management Agency (FEMA) discontinued during fiscal year 2022.

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.

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 December 31, 2022, cash equivalents consisted primarily of treasury bills.

At June 30, 2022, The Food Bank's cash accounts exceeded federally insured limits per institution by approximately $19,689,000.

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 $109,001 and $435,000 was recorded as of June 30, 2022 and 2021, 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 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 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 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, 2022 and 2021.

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 (the 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
Conditional gifts, with or without restriction	
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.e.*, the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
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
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 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 2022 and 2021, volunteers contributed approximately 386,000 and 241,000 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.

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 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 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.

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, 2022 and 2021, consisted of the following:

	2022	2021
Total pledges receivable	$ 693,742	$ 902,314
Allowance for uncollectible pledges receivable	(40,001)	(450,000)
Discount to estimated present value at 0.29% to 2.73%	(40,093)	(2,515)
Pledges receivable, net	$ 613,648	$ 449,799

Pledges receivable at June 30, 2022, are scheduled to be collected as follows:

Receivable in one year	$ 545,821
Receivable in one to five years	147,921
Total pledges receivable	$ 693,742

On June 30, 2022 and 2021, approximately 29 percent of pledges receivable are due from three donors and 17 percent of pledges receivable are due from one donor, respectively.

Note 3: Investments

Investments on June 30, 2022 and 2021, consisted of the following:

	2022	2021
Debt securities	$ 4,127,222	$ 4,539,789
Common stock	4,156,322	4,769,503
International equity mutual funds	1,565,082	1,858,557
Domestic equity mutual funds	1,525,703	1,679,009
Asset-backed securities	26,394	41,845
Money market mutual funds	203,186	95,038
Total investments	$ 11,603,909	$ 12,983,741

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:

	2022	2021
Interest and dividends earned on investments	$ 245,526	$ 235,712
Interest earned on notes receivable	173,856	173,856
Realized and unrealized gain (loss) on investments	(1,632,419)	2,309,876
Total investments return (loss)	$ (1,213,037)	$ 2,719,444

Note 4: Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2022 and 2021.

	2022			
	Level 1	Level 2	Level 3	Total
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
Total assets measured at fair value	$ 7,450,293	$ 4,153,616	$ 0	$ 11,603,909

	2021			
	Level 1	Level 2	Level 3	Total
Common stock:				
American depository receipt	$ 139,766	$ -	$ -	$ 139,766
Communication services	692,118	-	-	692,118
Consumer discretionary	450,944	-	-	450,944
Consumer staples	406,422	-	-	406,422
Energy	62,844	-	-	62,844
Financial	487,818	-	-	487,818
Healthcare	449,212	-	-	449,212
Industrial	325,726	-	-	325,726
Information technology	1,541,690	-	-	1,541,690
Materials	212,963	-	-	212,963
Debt securities:				
Corporate bonds and notes	-	1,427,892	-	1,427,892
Municipal bonds	-	3,111,897	-	3,111,897
Domestic equity mutual funds:				
Large-cap	1,207,897	-	-	1,207,897
Small/mid-cap	471,112	-	-	471,112
International equity mutual funds:				
Large-cap	1,090,716	-	-	1,090,716
Strategic	561,776	-	-	561,776
Emerging markets	206,065	-	-	206,065
Asset-backed securities	-	41,845	-	41,845
Money market mutual funds	95,038	-	-	95,038
Total assets measured at fair value	$ 8,402,107	$ 4,581,634	$ 0	$ 12,983,741

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.

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

Note 5: Notes Receivable

The Food Bank entered into an agreement on 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 2022 and 2021 was approximately $174,000.

Note 6: Property and Equipment

Property and equipment at June 30, 2022 and 2021, consisted of the following:

	2022	2021
Land	$ 14,673,401	$ 4,348,401
Buildings and improvements	53,361,496	51,978,698
Furniture and equipment	18,345,633	17,356,776
Motor vehicles	22,611,400	21,901,289
Construction in progress	1,631,052	115,000
Total property and equipment, at cost	110,622,982	95,700,164
Less accumulated depreciation	(43,972,072)	(37,383,996)
Property and equipment, net	$ 66,650,910	$ 58,316,168

Note 7: 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, 2022, are as follows:

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

Capitalized assets under the lease were $1,301,511 and $1,774,788, net of accumulated depreciation as of June 30, 2022 and 2021, respectively.

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 percent payable quarterly beginning in March 2017 with the principal 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.

	2022	2021
Total new market tax credits notes payable	$ 6,500,000	$ 6,500,000
Less unamortized debt issuance costs	(232,574)	(252,368)
New market tax credits notes payable, net	$ 6,267,426	$ 6,247,632

The balances outstanding on the new market tax credits notes payable, maturity dates, and repayment terms at June 30, 2022, 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 7th anniversary but before the 8th 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 2022 and 2021, respectively.

Note 9: 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 was recognized in 2021 within contributions revenue on the statement of activities in the amount of $3,200,000 when conditions were 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.

Note 10: Net Assets

Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specified purpose:		
Capital expenditures	$ 4,043,992	$ 403,217
Child hunger initiatives	1,609,408	869,673
Food distribution	1,320,396	256,276
Client assistance programs	100,106	76,491
Other programs	368,184	454,684
	7,442,086	2,060,341
Subject to the passage of time:		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due	506,596	588,760
Endowments:		
Accumulated investment gains subject to appropriation and expenditure	717,116	991,181
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	1,048,819	961,390
	1,765,935	1,952,571
Total	$ 9,714,617	$ 4,601,672

Net Assets Without Donor Restrictions

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

	2022	2021
Undesignated	$ 142,900,530	$ 140,238,352
Board-designated - endowment funds for general operations	7,053,876	8,038,015
Net assets without donor restrictions	$ 149,954,406	$ 148,276,367

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:

	2022	2021
Expiration of time restrictions	$ 449,164	$ 443,980
Satisfaction or purpose restrictions:		
Capital expenditures	146,783	284,783
Child hunger initiatives	1,215,882	1,016,235
Food distribution	21,108,294	27,347,893
Client assistance program	60,189	160,359
Other programs	214,591	419,577
	22,745,739	29,228,847
	$ 23,194,903	$ 29,672,827

Note 11: 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.

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.

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 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, 2022 and 2021.

Endowment net asset composition as of June 30, 2022 and 2021, is as follows.

	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	$ 7,053,876	$ 1,765,935	$ 8,819,811

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 8,038,015	$ -	$ 8,038,015
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	-	991,181	991,181
Endowment net assets	$ 8,038,015	$ 1,952,571	$ 9,990,586

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	$ 6,093,984	$ 1,480,342	$ 7,574,326
Investment return, net:			
Interest and dividends	105,442	25,614	131,056
Net realized and unrealized gain	1,880,728	456,863	2,337,591
Investment management fees	(42,186)	(10,248)	(52,434)
Total investment return, net	1,943,984	472,229	2,416,213

	Without Donor Restrictions	With Donor Restrictions	Total
Contributions	$ 47	$ 0	$ 47
Endowment net assets, June 30, 2021	8,038,015	1,952,571	9,990,586
Contributions	80	52,448	52,528
Investment loss, 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 loss, net	(984,219)	(239,084)	(1,223,303)
Endowment net assets, June 30, 2022	$ 7,053,876	$ 1,765,935	$ 8,819,811

Note 12: 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, 2021 and 2020, The Food Bank separately valued items by 22 food-only product categories and 6 non-food-only categories. The total value of contributed food for the years ended June 30, 2022 and 2021, is as follows:

	2022			2021		
	Pounds	Value Per Pound	Amount	Pounds	Value Per Pound	Amount
General donations - food and household items	87,940,547	$0.68 to $15.00	$ 167,319,161	141,760,762	$0.77 to $14.42	$ 200,318,470
USDA	52,085,682	$0.68 to $15.00	104,995,276	69,537,073	$0.77 to $14.42	129,623,431
Total	140,026,229		$ 272,314,437	211,297,835		$ 329,941,901

Other Contributed Nonfinancial Assets

For the years ended December 31, 2022 and 2021, other contributed nonfinancial assets recognized within the statement of activities included:

	2022	2021
Land	$ 10,325,000	$ -
Furniture	-	273,849
Gift cards	41,950	1,940
	$ 10,366,950	$ 275,789

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.

The contributed furniture will be used for warehouse leased location at 146 Knobcrest Dr., Houston, TX, 77060 and was valued based on fair value determined by donor.

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

Note 13: 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, 2022, have been recorded as receivables. Following are grant commitments as of June 30, 2022, and the amount remaining to be drawn or earned by the end of the term.

Grant	Term	Grant Amount	Earned as of June 30, 2022	Funding Available
Federal Grants				
U.S. Department of Agriculture				
Food Bank Capacity Building Grant	11/9/21 - 11/7/23	$ 14,554,280	$ 309,721	$ 14,244,559
Summer Food Program	10/1/21 - 9/30/22	2,309,586	1,182,578	1,127,008
Supplemental Nutrition Assistance Program (Nutrition ED)	10/1/21 - 9/30/22	567,400	482,163	85,237
Supplemental Nutrition Assistance Program Client Assistance Program (CAP)	10/1/21 - 9/30/22	1,518,333	1,365,361	152,972
U.S. Department of Housing and Urban Development				
COVID-19 Community Development Block Grant Program	10/1/21 - 9/30//22	6,879,600	5,278,394	1,601,206
U.S. Department of Health and Human Services				
Temporary Assistance for Needy Families - Pandemic Emergency Assistance Program	3/4/22 - 9/30/22	1,356,251	131,864	1,224,387
Total Grant Commitments		$ 27,185,450	$ 8,750,081	$ 18,435,369

Note 14: 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:

	2022	2021
Program and administrative costs:		
U.S. Department of Agriculture	$ 18,611,103	$ 16,391,380
Harris County, Texas	4,374,176	7,490,706
City of Houston, Texas	-	2,036,000
Texas Department of Emergency Management	20,585,385	16,956,015
Texas Health and Human Services Commission	1,444,567	1,438,328
Texas Department of Agriculture	-	33,432
	45,015,231	44,345,861
Commodities:		
U.S. Department of Agriculture	104,995,276	129,623,431
	104,995,276	129,623,431
Total government grants and contracts	$ 150,010,507	$ 173,969,292

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 15: 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, 2022:

2023	$	944,322
2024		944,322
2025		954,476
2026		974,784
2027		974,784
Thereafter through 2030		2,599,424
Total	$	7,392,112

Rental income of $968,987 and $849,109 has been recognized in the consolidated financial statements related to this lease agreement for 2022 and 2021, respectively.

Capitalized asset under the lease was $5,631,247 and $5,832,698 net of accumulated depreciation as of June 30, 2022 and 2021, respectively.

Note 16: 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 rental expense of $886,764 has been recognized in the consolidated financial statements related to this lease agreement for the years ended June 30, 2021. 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.

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 rental expense of $161,688 has been recognized in the consolidated financial statements related to this lease agreement for the years ended June 30,

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 twelve months set to expire on July 31, 2022. Rental expense of $762,300 has been recognized in the consolidated financial statements.

Note 17: 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 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 $368,553 and $351,013 for the years ended June 30, 2022 and 2021, respectively.

Note 18: 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 $39,864 and $0 during 2022 and 2021, respectively. Another board member of The Food Bank is an employee of a supermarket chain to which The Food Bank paid approximately $0 and $1,237,000 during 2022 and 2021, respectively.

Note 19: 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, 2022 and 2021, comprise the following:

	2022	2021
Total financial assets	$ 65,640,808	$ 94,162,256
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Donor-restricted endowments	(1,765,935)	(1,952,571)
Financial assets available to meet cash needs for general expenditures within one year	$ 63,874,873	$ 92,209,685

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, 2022 and 2021, restricted contributions of $4,944,732 and $2,556,667, 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 $7,053,876 is subject to an annual spending rate of 5 percent as described in Note 11. 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 20: Subsequent Events

Subsequent events have been evaluated through March 31, 2023, which is the date the consolidated financial statements were available to be issued.

The Food Bank signed a contract on March 28, 2023 with Tellepsen Builders, LP, for the construction of the Houston Food Bank New Campus located at 2121 W. Mount Houston Rd, Houston, TX 77038. The total budget for the cost of the work will not be less than $95,000,000 but not to exceed $105,000,000. The estimated move-in commencement is scheduled for January 2026.

The Food Bank implemented NetSuite, a new Enterprise Resource Planning (ERP) System, on January 9, 2023. This system provides real-time operational and financial information, integrating all departments of the organization.

Note 21: Future Change in Accounting Principle

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 non-lease 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.