

CHILDREN'S HUNGER FUND

Combined Financial Statements
With Independent Auditors' Report

December 31, 2016 and 2015

CHILDREN'S HUNGER FUND

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Children's Hunger Fund
Sylmar, California

We have audited the accompanying combined financial statements of Children's Hunger Fund (CHF), which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the 2015 financial statements of Children's Hunger Fund Legacy Foundation (CHFLF), a controlled entity, which statements reflect total assets constituting 6% of combined total assets at December 31, 2015. These statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHFLF at December 31, 2015, and for the year then ended, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

The Board of Directors
Children's Hunger Fund
Sylmar, California

Opinion

In our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Children's Hunger Fund and its subsidiary as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Tarzana, California
April 28, 2017

CHILDREN'S HUNGER FUND

Combined Statements of Financial Position

	December 31,	
	2016	2015
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 4,191,326	\$ 2,879,185
Pledges and accounts receivable (net of allowance for uncollectible pledges of \$39,734 and \$34,510)	192,454	359,265
Investments	1,742,121	1,681,407
Inventory	5,578,276	4,111,212
Prepaid expenses	250,074	235,582
	11,954,251	9,266,651
Cash restricted for construction costs	1,002,380	-
Deposits	62,129	32,129
Land, buildings and equipment - net	9,834,876	9,383,660
	11,954,251	9,266,651
Total Assets	\$ 22,853,636	\$ 18,682,440
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 508,462	\$ 396,987
Grants payable	2,000	16,000
Accrued expenses	21,124	32,359
Wages and related expense payable	137,548	120,859
Deferred income	75,000	-
Deferred rent and lease incentives	37,477	-
Current portion of capital lease obligation	16,144	14,570
Current portion of long-term debt	137,666	130,859
	935,421	711,634
Deferred rent and lease incentives - net of current portion	184,017	-
Capital lease obligation - net of current portion	77,767	93,911
Long-term debt - net of current portion	4,958,732	5,096,428
Total liabilities	6,155,937	5,901,973

(continued)

See notes to financial statements

CHILDREN'S HUNGER FUND

Combined Statements of Financial Position (continued)

	December 31,	
	<u>2016</u>	<u>2015</u>
Net Assets:		
Unrestricted		
Undesignated	7,183,414	4,532,961
Designated by board of directors for endowment	1,136,574	1,041,883
Net investment in land, buildings, and equipment	4,648,697	4,069,329
	<u>12,968,685</u>	<u>9,644,173</u>
Temporarily restricted	3,729,014	3,136,294
Total net assets	<u>16,697,699</u>	<u>12,780,467</u>
Total Liabilities and Net Assets	<u>\$ 22,853,636</u>	<u>\$ 18,682,440</u>

See notes to financial statements

CHILDREN'S HUNGER FUND

Combined Statements of Activities

	Year Ended December 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:						
Contributions - cash	\$ 6,290,314	\$ 5,549,835	\$ 11,840,149	\$ 3,632,347	\$ 6,195,634	\$ 9,827,981
Contributions - securities	-	-	-	147,451	-	147,451
Gifts-in-kind	36,626,118	-	36,626,118	28,253,353	-	28,253,353
Special events support - net	353,735	-	353,735	499,024	-	499,024
Investment income	162,327	-	162,327	(12,456)	-	(12,456)
Program service revenue	45,359	-	45,359	60,446	-	60,446
Other revenue	2,167	-	2,167	3,508	-	3,508
Net assets released from restriction through satisfaction of purpose and time restrictions	4,957,115	(4,957,115)	-	3,842,477	(3,842,477)	-
Total revenue, support, and reclassifications	48,437,135	592,720	49,029,855	36,426,150	2,353,157	38,779,307
EXPENSES:						
Program services	42,763,363	-	42,763,363	33,227,448	-	33,227,448
Supporting activities:						
Management and general	1,551,501	-	1,551,501	1,331,403	-	1,331,403
Fund-raising	797,759	-	797,759	752,848	-	752,848
	2,349,260	-	2,349,260	2,084,251	-	2,084,251
Total Expenses	45,112,623	-	45,112,623	35,311,699	-	35,311,699
Change in Net Assets from Operations	3,324,512	592,720	3,917,232	1,114,451	2,353,157	3,467,608
Change in controlled entity (Note 1)	-	-	-	1,047,097	-	1,047,097
Change in net assets	3,324,512	592,720	3,917,232	2,161,548	2,353,157	4,514,705
Net Assets, Beginning of Year	9,644,173	3,136,294	12,780,467	7,482,625	783,137	8,265,762
Net Assets, End of Year	\$ 12,968,685	\$ 3,729,014	\$ 16,697,699	\$ 9,644,173	\$ 3,136,294	\$ 12,780,467

See notes to financial statements

CHILDREN'S HUNGER FUND

Combined Statement of Functional Expense

Year Ended December 31, 2016

	Program Services	Supporting Activities		Total Expenses
		General and Administrative	Fundraising	
Donated goods and facilities	\$ 35,137,311	\$ -	\$ -	\$ 35,137,311
Personnel costs	3,301,089	1,149,875	550,182	5,001,146
Utilities	120,558	42,013	20,093	182,664
Information technology	70,762	24,660	11,794	107,216
Postage	32,534	9,823	21,121	63,478
Freight and shipping charges	451,131	-	-	451,131
Supplies	55,976	6,998	3,333	66,307
Printing	44,443	11,111	55,554	111,108
Bank charges and merchant fees	-	83,662	-	83,662
Rent	415,681	22,111	4,422	442,214
Facilities	59,190	3,148	630	62,968
Vehicle fuel and maintenance	92,257	-	-	92,257
Depreciation and amortization	284,805	34,314	24,020	343,139
Interest	230,355	16,072	2,339	248,766
Insurance	112,000	19,704	7,534	139,238
Taxes and licenses	39,903	3,059	919	43,881
Advertising	5,795	-	21,887	27,682
Outside services	213,834	90,873	35,341	340,048
Dues, subscriptions, and fees	3,564	4,644	2,323	10,531
Ministry travel	282,339	29,434	28,249	340,022
Volunteer program	57,095	-	8,018	65,113
Mercy network training	41,160	-	-	41,160
Purchased paks (food, school, pastor)	540,692	-	-	540,692
Grants (Mercy Network, food, transportation)	1,170,889	-	-	1,170,889
Totals	\$ 42,763,363	\$ 1,551,501	\$ 797,759	\$ 45,112,623

See notes to financial statements

CHILDREN'S HUNGER FUND

Combined Statement of Functional Expense

Year Ended December 31, 2015

	Program Services	Supporting Activities		Total Expenses
		General and Administrative	Fundraising	
Donated goods and facilities	\$ 27,044,106	\$ -	\$ -	\$ 27,044,106
Personnel costs	2,777,430	1,036,359	462,436	4,276,225
Utilities	103,885	38,358	17,581	159,824
Information technology	48,586	17,940	8,222	74,748
Postage	38,973	15,608	23,626	78,207
Freight and shipping charges	373,418	-	-	373,418
Supplies	35,227	6,429	2,947	44,603
Printing	-	-	108,512	108,512
Bank charges and merchant fees	-	56,833	-	56,833
Rent	202,151	10,002	2,000	214,153
Facilities	47,536	2,529	506	50,571
Vehicle fuel and maintenance	100,121	-	-	100,121
Depreciation and amortization	230,109	27,724	19,407	277,240
Interest	238,703	12,124	2,413	253,240
Insurance	100,529	13,201	6,542	120,272
Taxes and licenses	41,012	3,332	1,013	45,357
Advertising	-	-	29,206	29,206
Outside services	142,207	50,340	23,072	215,619
Dues, subscriptions, and fees	1,845	3,690	1,845	7,380
Ministry travel	291,811	36,934	35,303	364,048
Volunteer program	54,794	-	8,217	63,011
Mercy network training	25,813	-	-	25,813
Purchased paks (food, school, pastor)	445,407	-	-	445,407
Emergency relief	111,382	-	-	111,382
Grants (Mercy Network, food, transportation)	772,403	-	-	772,403
Totals	\$ 33,227,448	\$ 1,331,403	\$ 752,848	\$ 35,311,699

See notes to financial statements

CHILDREN'S HUNGER FUND

Combined Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,917,232	\$ 3,467,608
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated inventory	(35,951,985)	(28,158,306)
Distributed inventory	34,523,356	26,949,059
Depreciation and amortization	343,139	277,240
Realized and unrealized (gain) loss on investments	(112,570)	12,456
Non-cash fixed asset contribution	(60,000)	-
Gain on disposal of fixed assets	(2,167)	(4,756)
Contributions for long-term capital projects	(2,186,647)	(212,220)
Net change in:		
Pledges receivable	166,811	(232,334)
Purchased inventory	(38,435)	(4,105)
Prepaid expenses	(14,492)	(48,717)
Deposits	(30,000)	(4,775)
Accounts payable	106,444	58,189
Grants payable	(14,000)	-
Accrued expenses	5,454	19,299
Deferred rent and leasehold improvement allowance	53,218	-
Deferred revenue	75,000	(75,000)
Net Cash Provided by Operating Activities	780,358	2,043,638
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemptions of investments	1,873,442	412,700
Purchases of investments	(1,821,586)	(613,734)
Proceeds from sale of fixed assets	3,400	11,000
Purchase of fixed assets	(559,544)	(516,131)
Net Cash Used in Investing Activities	(504,288)	(706,165)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease repayments	(14,570)	(13,149)
Borrowing on line of credit	750,000	50,000
Repayment on line of credit	(750,000)	(50,000)
Long-term debt repayments	(133,626)	(1,273,380)
Contributions for long-term capital projects	2,186,647	212,220
Net Cash Provided by (Used in) Financing Activities	2,038,451	(1,074,309)

(continued)

See notes to financial statements

CHILDREN'S HUNGER FUND

Combined Statements of Cash Flows (continued)

	Year Ended December 31,	
	<u>2016</u>	<u>2015</u>
Change in Cash and Cash Equivalents	\$ 2,314,521	\$ 263,164
Cash and Cash Equivalents Transferred During Change in Controlled Entity	-	8,771
Cash and Cash Equivalents, Beginning of Year	<u>2,879,185</u>	<u>2,607,250</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,193,706</u>	<u>\$ 2,879,185</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest (none capitalized)	<u>\$ 248,724</u>	<u>\$ 253,730</u>
Fixed asset acquired through deferred lease incentive	<u>\$ 168,276</u>	<u>\$ -</u>
Fixed asset acquired through accounts payable	<u>\$ 5,031</u>	<u>\$ 17,954</u>

See notes to financial statements

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

1. NATURE OF ORGANIZATION:

Children's Hunger Fund (CHF) was incorporated in 1991 in California as a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). It is also exempt from California state income taxes under Section 23701d of the California Revenue and Taxation Code. CHF has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code. Contributions by the public are deductible for income tax purposes.

CHF exists to assist in meeting the physical and spiritual needs of children and their families in the United States and developing countries by obtaining and distributing food and other items and by working in cooperation with other organizations toward that end.

CHF's primary support comes through cash contributions by individuals and organizations and contributions of food and other items.

During the fiscal year ended December 31, 2015, CHF assumed control of Children's Hunger Fund Legacy Foundation (CHFLF) by virtue of CHF's ability to appoint CHFLF's board of directors and because CHF has an economic interest in CHFLF. CHFLF functions in a manner similar to a supporting organization in that its primary purpose is to provide a means for donors to provide financial support to CHF. CHFLF's statement of financial position as of September 30, 2015, the approximate date CHF assumed control of CHFLF, has been combined with CHF. CHFLF's revenues and expenses for the three months ended December 31, 2015, are immaterial and have been excluded from CHF's combined statements of activity for the year ended December 31, 2015. In 2016, CHFLF changed its fiscal year from September 30 to December 31. Accordingly, the fifteen months of activity ending December 31, 2016, has been combined with CHF and the CHFLF statement of financial position as of December 31, 2016, has been combined with CHF.

CHFLF was incorporated in 1997 in California as a nonprofit organization exempt from federal income taxes under Section 509(a)(3) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The combined financial statements of CHF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies is described below to enhance the usefulness of the combined financial statements to the reader.

PRINCIPLES OF COMBINATION

As described in note 1, CHF assumed control of CHFLF during the year ended December 31, 2015. The accompanying combined financial statements as of December 31, 2015, include the Statement of Financial Position for CHFLF as of September 30, 2015. CHFLF's financial statements as of September 30, 2015 and for the year then ended were audited by other auditors who expressed an unmodified opinion on those financial statements. All intercompany transactions and balances have been eliminated.

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

For combined statement of financial position and cash flow purposes, cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. These accounts may, at times, exceed federally insured limits. CHF has not experienced any losses on these accounts.

PLEDGES AND ACCOUNTS RECEIVABLE

Unconditional promises to give are recognized as revenue or gains in the period received as either assets, or decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

CHF uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance method is based on prior years' experience and management's analysis of specific promises made. All pledges and accounts receivable are expected to be collected within one year.

INVESTMENTS

Investments consist of shares of common and preferred stocks, exchange traded funds (ETFs), corporate bonds, and mutual funds. Investments are carried at fair value, which is based upon quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Realized and unrealized gains and losses are reported as unrestricted net investment income in the combined statements of activities unless restricted by the donor.

INVENTORY

Inventory consists primarily of donated goods and is recorded at estimated wholesale fair market value at the date of receipt, or at cost if purchased.

PREPAID EXPENSES

Prepaid expenses consist primarily of deposits, prepaid events, and prepaid insurance for future periods and are carried at cost.

LAND, BUILDINGS, AND EQUIPMENT

Expenditures for land, buildings, and equipment over \$500 are capitalized at cost. Donated items are recorded at the fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets, ranging from 5 to 40 years. Expenditures that increase the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Expenditures for maintenance of property and equipment (including those for planned major maintenance projects), repairs, and minor renewals to maintain facilities in operating condition are generally expensed as incurred. Major replacements and renewals are capitalized.

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

DEFERRED REVENUE

Deferred revenue represents the unearned portion of cash received related to a grant. Cash received related to grant contracts prior to when services are rendered are recorded as deferred revenues. The revenue is recognized when it is earned.

NET ASSETS

The combined financial statements report amounts by class of net assets as follows:

Unrestricted net assets are those currently available at the discretion of the board of directors for use in CHF's operations and those resources invested in a board designated endowment fund, and land, buildings, and equipment.

Temporarily restricted net assets are those that are stipulated by donors for specific operating purposes, for capital projects, or are subject to time restrictions.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to legal restrictions.

PUBLIC SUPPORT, REVENUE, AND EXPENSES

Contributions and grants are recorded when cash or unconditional promises-to-give have been received or ownership of donated assets is transferred to CHF. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met.

Contributions and grants are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is acquired.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

GIFTS-IN-KIND

Donated materials have been recorded as income at the estimated fair value of the material received. The fair market value is determined by using estimated wholesale prices. Donated materials consist of food, personal hygiene products, toys, books, medicine, and other items.

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program ministries and supporting services have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program ministries and supporting services benefited.

ESTIMATES

The preparation of combined financial statements in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America requires management to make estimates that affect the amount reported in the combined financial statements and disclosures. Accordingly, actual results could differ from estimates.

ADVERTISING

Advertising expense was \$27,682 and \$29,206 for the years ended December 31, 2016 and 2015, respectively. CHF uses advertising to promote the programs and fundraising events of CHF and these costs are expensed as incurred.

UNCERTAIN TAX POSITION

The financial statement effects of a tax position taken or expected to be taken are recognized in the combined financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the combined statement of activities. As of December 31, 2016, CHF had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements. CHF files information tax returns in the U.S. and various states. CHF is subject to tax examinations for the current year and certain prior years based on the applicable laws and regulations.

RECLASSIFICATIONS

Certain amounts previously reported in the combined financial statements have been reclassified to conform to the current year presentation.

ADOPTION OF RECENTLY ISSUED PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance that replaces the existing accounting standards for debt issuance costs in Accounting Standard Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, with retrospective application required. The guidance is effective for fiscal years beginning after December 31, 2015, and requires debt issuance related costs related to a recognized debt liability to be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts (i.e., a contra liability), rather than as an asset. CHF adopted the provisions of this guidance in the year ended December 31, 2016. See note 6 for the unamortized discount of prepaid loan costs.

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2016	2015
Cash and certificate of deposit	\$ 603,953	\$ 381,622
Common stocks and ETFs	847,348	513,392
Preferred shares	-	63,569
Closed-end mutual funds	36,721	11,394
Mutual funds	-	22,336
Fixed income	183,100	65,263
Certificates of deposit	70,999	623,831
	<u>\$ 1,742,121</u>	<u>\$ 1,681,407</u>

Investment income consists of the following:

Interest from cash, certificates of deposit, and money market accounts	\$ 19,035	\$ 2,982
Dividends from investments	30,722	2,850
Realized and unrealized gain (loss)	112,570	(18,288)
	<u>\$ 162,327</u>	<u>\$ (12,456)</u>

Approximately \$1,136,500 of the investments are pledged as collateral for a line of credit held by CHFLF. There was no balance outstanding on the line of credit at December 31, 2016.

4. FAIR VALUE MEASUREMENTS:

CHF uses appropriate valuation techniques to determine fair value based on inputs available. When available, CHF measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available. Certificates of deposit are valued at contract price plus accrued interest.

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

4. FAIR VALUE MEASUREMENTS (continued):

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	Fair Value Measurements Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities, and ETF's:				
Financial services	\$ 175,232	\$ 175,232	\$ -	\$ -
Healthcare	97,454	97,454	-	-
Industrial goods	93,632	93,632	-	-
Oil and gas	85,567	85,567	-	-
Technology	58,317	58,317	-	-
Steel (and other metals)	47,280	47,280	-	-
Consumer goods	40,351	40,351	-	-
Industrial electrical, metals	36,958	36,958	-	-
Auto manufacturer	27,872	27,872	-	-
Insurance	25,742	25,742	-	-
REIT	24,910	24,910	-	-
Chemicals-diversified	24,830	24,830	-	-
Railroads	20,381	20,381	-	-
Shipping	19,846	19,846	-	-
Biotech	16,676	16,676	-	-
Advertising	11,705	11,705	-	-
Medical instruments	11,085	11,085	-	-
Pharmaceutical	10,706	10,706	-	-
Broadcasting TV	10,494	10,494	-	-
Retail	8,310	8,310	-	-
Total equity securities and ETF's	<u>847,348</u>	<u>847,348</u>	<u>-</u>	<u>-</u>
Corporate bonds	183,100	183,100	-	-
Closed-end mutual funds	<u>36,721</u>	<u>36,721</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,067,169</u>	<u>\$ 1,067,169</u>	<u>\$ -</u>	<u>\$ -</u>

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

4. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at December 31, 2015 are as follows:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Equity securities, and ETF's:				
Financial services	\$ 163,492	\$ 163,492	\$ -	\$ -
Medical	118,433	118,433	-	-
Industrial	112,949	112,949	-	-
Oil and gas	44,881	44,881	-	-
Technology	34,355	34,355	-	-
Shipping	12,548	12,548	-	-
Real estate	31,944	31,944	-	-
Auto	24,016	24,016	-	-
Advertising	9,565	9,565	-	-
Retail	9,290	9,290	-	-
Media	11,268	11,268	-	-
Security	4,220	4,220	-	-
	<u>576,961</u>	<u>576,961</u>	<u>-</u>	<u>-</u>
Closed-end mutual funds	11,394	11,394	-	-
Mutual funds	22,336	22,336	-	-
Corporate bonds	<u>65,263</u>	<u>65,263</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 675,954</u>	<u>\$ 675,954</u>	<u>\$ -</u>	<u>\$ -</u>

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

5. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of the following:

	December 31,	
	2016	2015
Land	\$ 4,577,143	\$ 4,577,143
Buildings and improvements	5,033,670	4,804,428
Furniture and equipment	939,287	753,454
Vehicle acquired through capital lease	124,712	124,712
Vehicles	501,662	499,810
	11,176,474	10,759,547
Less accumulated depreciation and amortization	(1,909,946)	(1,583,272)
Construction in process	568,348	207,385
Land, building, and equipment, net	9,834,876	9,383,660
Add prepaid loan costs, net of amortization	18,700	21,437
Less debt secured by land, buildings, and equipment	(5,096,398)	(5,227,287)
Less capital lease secured by vehicle	(108,481)	(108,481)
Net investment in land, buildings, and equipment	\$ 4,648,697	\$ 4,069,329

Accumulated amortization related to the vehicle under capital lease was \$45,728 and \$23,755 at December 31, 2016 and 2015, respectively.

6. LONG-TERM DEBT:

Long-term debt consists of:

	December 31,	
	2016	2015
Mortgage to a financial institution, collateralized by all of CHF's assets, including real property, monthly payments of \$30,669, including principal and interest at 4.44%, maturing October 31, 2023.	\$ 5,115,098	\$ 5,248,724
Revolving line of credit with a bank, bearing interest at the bank's prime rate (3.75% at December 31, 2016) plus .90%, collateralized by a commercial security agreement covering substantially all of CHF's assets. Maximum amount available under the line is \$900,000. Interest only payments due monthly, with principal due on demand.	-	-
Less prepaid loan costs	(18,700)	(21,437)
	\$ 5,096,398	\$ 5,227,287
Less: current portion	(137,666)	(130,859)
Long-term debt	\$ 4,958,732	\$ 5,096,428

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

6. LONG-TERM DEBT, continued:

At December 31, 2016, annual maturities, are as follows:

<u>Year Ending December 31,</u>	Note Payable	Prepaid Loan Cost	Total
2017	\$ 140,403	\$ (2,737)	\$ 137,666
2018	146,855	(2,737)	144,118
2019	153,605	(2,737)	150,868
2020	160,070	(2,737)	157,333
2021	168,020	(2,737)	165,283
Thereafter	4,346,145	(5,015)	4,341,130
	<u>\$ 5,115,098</u>	<u>\$ (18,700)</u>	<u>\$ 5,096,398</u>

CHF was in compliance with all financial and reporting covenants at December 31, 2016.

PREPAID LOAN COSTS

Prepaid loan costs are amortized on a straight-line basis over the term of the loan. Amortization expense was \$2,737 for each of the years ended December 31, 2016 and 2015.

7. DEFERRED RENT AND LEASE INCENTIVES:

In March 2016, CHF entered into a real property lease agreement and received certain incentives over the five year term of the rental agreement. At December 31, 2016, the deferred rent and lease incentive of \$221,494 represents the unamortized portion of the lease incentives and a portion of straight-line rent expense.

8. CAPITAL LEASE OBLIGATION:

In 2014, CHF entered into a capital lease arrangement for a vehicle valued at \$124,712. The seven year lease bears an implicit interest rate of 10.3%, is due in monthly installments of \$2,089, and is collateralized by the vehicle. Future payments are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 25,068
2018	25,068
2019	25,068
2020	25,068
2021	25,068
	125,340
Less: amount representing interest	(31,429)
	93,911
Less: current portion	(16,144)
Long-term capital lease	\$ 77,767

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

9. COMMITMENTS AND OPERATING LEASES:

CHF holds operating leases for warehouses in Chula Vista, California, San Antonio, Texas, and Dallas, Texas, and for office equipment, with monthly payments of \$53,286, which leases expire at various time through 2021. For the years ended December 31, 2016 and 2015, the rent and lease expense was \$442,317 and \$240,851, respectively. Future payments under the leases are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 571,137
2018	564,422
2019	345,159
2020	297,621
2021	173,612
	\$ 1,951,951
	\$ 1,951,951

10. NET ASSETS:

Temporarily restricted net assets are available for:

	December 31,	
	2016	2015
Capital programs - building	\$ 1,827,733	\$ -
African programs	699,911	1,397,153
Emergency relief	564,779	482,797
Asian programs	164,181	160,489
Sustainability programs	105,688	63,715
Refugee care	96,071	49,825
Pledges receivable	91,691	343,174
Bibles	81,443	89,135
Latin American programs	67,751	90,073
Seed programs	13,241	17,041
Pastors pak program	11,408	5,100
Other	4,817	4,465
European programs	300	900
Food pak program	-	296,390
Dallas expansion	-	113,642
Pastor transportation program	-	14,501
School pack program	-	7,894
	\$ 3,729,014	\$ 3,136,294

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

11. ENDOWMENT FUNDS:

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of California enacted UPMIFA effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. CHFLF has adopted the net asset classification provisions of FSP FAS 117-1 for the fifteen months ending December 31, 2016. The Board has established a quasi-endowment by designating the investment balance as an endowment under UPMIFA. Based on CHFLF's interpretation of UPMIFA, CHFLF has reviewed all of its endowment funds and has determined no reclassification from unrestricted net assets to temporarily restricted net assets is necessary.

CHFLF's endowment consists of the investment asset as a general endowment to support the mission of CHF. Its endowment consists of funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of CHFLF has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CHFLF will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, CHFLF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

11. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 1,136,574	\$ -	\$ -	\$ 1,136,574
Total endowment funds	\$ 1,136,574	\$ -	\$ -	\$ 1,136,574

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	\$ 1,041,883	\$ -	\$ -	\$ 1,041,883
Investment return:				
Interest and dividend income reinvested	37,744	-	-	37,744
Realized and unrealized gains and losses	122,227	-	-	122,227
Total investment return	159,971	-	-	159,971
Additions to endowment	67,794	-	-	67,794
Appropriation of endowment assets for expenditure	(133,074)	-	-	(133,074)
Endowment net assets, December 31, 2016	\$ 1,136,574	\$ -	\$ -	\$ 1,136,574

CHILDREN'S HUNGER FUND

Notes to Combined Financial Statements

December 31, 2016 and 2015

11. ENDOWMENT FUNDS, continued:

CHFLF is in the process of adopting investment and spending policies for endowment assets that provide guidance for return objectives and risk parameters as well as strategies employed for achieving objectives and spending policies.

12. RELATED PARTY:

For the years ended December 31, 2016 and 2015, CHF purchased catering and audio visual services from vendors owned by family members of management. The amounts paid for these services totaled \$2,066 and \$3,379 for the years ended December 31, 2016 and 2015, respectively.

A member of the board of directors provided executive consulting services to CHF. The amount paid for these services totaled \$36,000 for each of the years ended December 31, 2016 and 2015.

During the year ended December 31, 2016, a member of the board of directors provided donated pre-construction and project management services related to the poverty encounter project to CHF. The estimated value for these services totaled \$60,000 for the year ended December 31, 2016.

13. PENSION PLAN:

CHF has a defined contribution plan covering all employees with at least two years of service. For the years ended December 31, 2016 and 2015, CHF contributed \$65,964 and \$60,445, respectively, to this plan.

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

The Board of Directors
Children's Hunger Fund
Sylmar, California

We have audited the combined financial statements of Children's Hunger Fund and its subsidiary as of and for the years ended December 31, 2016 and 2015, and our report thereon dated April 28, 2017 which expressed an unmodified opinion on those combined financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position as of December 31, 2016 and 2015, and the combining statement of activities for the year ended December 31, 2016, are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and changes in net assets of the individual organizations, and they are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Capin Crouse LLP

Tarzana, California
April 28, 2017

CHILDREN'S HUNGER FUND

Combining Statement of Financial Position

December 31, 2016

	CHF	CHFLF	Totals
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 4,170,735	\$ 20,591	\$ 4,191,326
Pledges and accounts receivable (net of allowance for uncollectible pledges of \$39,734)	166,691	25,763	192,454
Investments	605,547	1,136,574	1,742,121
Inventory	5,578,276	-	5,578,276
Prepaid expenses	245,911	4,163	250,074
	10,767,160	1,187,091	11,954,251
Cash restricted for construction costs	1,002,380	-	1,002,380
Deposits	62,129	-	62,129
Land, buildings and equipment - net	9,834,876	-	9,834,876
	\$ 21,666,545	\$ 1,187,091	\$ 22,853,636
Total Assets	\$ 21,666,545	\$ 1,187,091	\$ 22,853,636
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 508,462	\$ -	\$ 508,462
Grants payable	-	2,000	2,000
Accrued expenses	21,124	-	21,124
Deferred rent and lease incentives	37,477	-	37,477
Wages and related expense payable	137,548	-	137,548
Deferred income	75,000	-	75,000
Current portion of capital lease obligation	16,144	-	16,144
Current portion of long-term debt	137,666	-	137,666
	933,421	2,000	935,421
Deferred rent and lease incentives - net of current portion	184,017	-	184,017
Capital lease obligation - net of current portion	77,767	-	77,767
Debt - net of current portion	4,958,732	-	4,958,732
Total liabilities	6,153,937	2,000	6,155,937

(continued)

See notes to financial statements

CHILDREN'S HUNGER FUND

Combining Statement of Financial Position

December 31, 2016

(continued)

	<u>CHF</u>	<u>CHFLF</u>	<u>Totals</u>
Net Assets:			
Unrestricted			
Undesignated	7,134,897	48,517	7,183,414
Designated by board of directors for endowment	-	1,136,574	1,136,574
Net investment in land, buildings, and equipment	4,648,697	-	4,648,697
	<u>11,783,594</u>	<u>1,185,091</u>	<u>12,968,685</u>
Temporarily restricted	3,729,014	-	3,729,014
Total net assets	<u>15,512,608</u>	<u>1,185,091</u>	<u>16,697,699</u>
Total Liabilities and Net Assets	<u>\$21,666,545</u>	<u>\$ 1,187,091</u>	<u>\$22,853,636</u>

See notes to financial statements

CHILDREN'S HUNGER FUND

Combining Statement of Financial Position

December 31, 2015

	CHF	CHFLF	Totals
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 2,870,414	\$ 8,771	\$ 2,879,185
Pledges and accounts receivable (net of allowance for uncollectible pledges of \$34,510)	343,174	16,091	359,265
Investments	639,524	1,041,883	1,681,407
Inventory	4,111,212	-	4,111,212
Prepaid expenses	235,582	-	235,582
	8,199,906	1,066,745	9,266,651
Deposits	32,129	-	32,129
Land, buildings and equipment - net	9,383,660	-	9,383,660
	8,199,906	1,066,745	9,266,651
Total Assets	\$ 17,615,695	\$ 1,066,745	\$ 18,682,440
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 393,339	\$ 3,648	\$ 396,987
Grants payable	-	16,000	16,000
Accrued expenses	32,359	-	32,359
Wages and related expense payable	120,859	-	120,859
Current portion of capital lease obligation	14,570	-	14,570
Current portion of long-term debt	130,859	-	130,859
	691,986	19,648	711,634
Capital lease obligation - net of current portion	93,911	-	93,911
Debt - net of current portion	5,096,428	-	5,096,428
Total liabilities	5,882,325	19,648	5,901,973
Net Assets:			
Unrestricted			
Undesignated	4,527,747	5,214	4,532,961
Designated by board of directors for endowment	-	1,041,883	1,041,883
Net investment in land, buildings, and equipment	4,069,329	-	4,069,329
	8,597,076	1,047,097	9,644,173
Temporarily restricted	3,136,294	-	3,136,294
Total net assets	11,733,370	1,047,097	12,780,467
Total Liabilities and Net Assets	\$ 17,615,695	\$ 1,066,745	\$ 18,682,440

See notes to financial statements

CHILDREN'S HUNGER FUND

Combining Statement of Activities

Year Ended December 31, 2016

	CHF			CHFLF	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:					
Contributions - cash	\$ 6,159,526	\$ 5,609,835	\$ 11,769,361	\$ 70,788	\$ 11,840,149
Gifts-in-kind	36,087,242	-	36,087,242	538,876	36,626,118
Special events support - net	353,735	-	353,735	-	353,735
Investment income	2,356	-	2,356	159,971	162,327
Program service revenue	45,359	-	45,359	-	45,359
Other revenue	2,167	-	2,167	-	2,167
Net assets released from restriction through satisfaction of purpose and time restrictions	5,017,115	(5,017,115)	-	-	-
Total revenue, support, and reclassifications	<u>47,667,500</u>	<u>592,720</u>	<u>48,260,220</u>	<u>769,635</u>	<u>49,029,855</u>
EXPENSES:					
Program services	42,173,252	-	42,173,252	590,111	42,763,363
Supporting activities:					
Management and general	1,510,947	-	1,510,947	40,554	1,551,501
Fund-raising	796,783	-	796,783	976	797,759
	<u>2,307,730</u>	<u>-</u>	<u>2,307,730</u>	<u>41,530</u>	<u>2,349,260</u>
Total Expenses	<u>44,480,982</u>	<u>-</u>	<u>44,480,982</u>	<u>631,641</u>	<u>45,112,623</u>
Change in net assets	3,186,518	592,720	3,779,238	137,994	3,917,232
Net Assets, Beginning of Year	<u>8,597,076</u>	<u>3,136,294</u>	<u>11,733,370</u>	<u>1,047,097</u>	<u>12,780,467</u>
Net Assets, End of Year	<u>\$ 11,783,594</u>	<u>\$ 3,729,014</u>	<u>\$ 15,512,608</u>	<u>\$ 1,185,091</u>	<u>\$ 16,697,699</u>

See notes to financial statements