



Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2017 and 2016

# 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 consolidated financial statements of Children's Hunger Fund (CHF), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CHF's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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, the consolidated 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, 2017 and 2016, 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  
May 31, 2018, except as to Note 14, which is dated July 26, 2018



# CHILDREN'S HUNGER FUND

## Consolidated Statements of Financial Position (continued)

	December 31,	
	<u>2017</u>	<u>2016</u>
Net Assets:		
Unrestricted		
Undesignated	9,706,907	7,183,414
Designated by board of directors for endowment	1,324,626	1,136,574
Net investment in land, buildings, and equipment	7,946,268	4,648,697
	<u>18,977,801</u>	<u>12,968,685</u>
Temporarily restricted	4,226,356	3,729,014
Total net assets	<u>23,204,157</u>	<u>16,697,699</u>
Total Liabilities and Net Assets	<u>\$ 29,448,572</u>	<u>\$ 22,853,636</u>

See notes to financial statements

## CHILDREN'S HUNGER FUND

### Consolidated Statements of Activities

	Year Ended December 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:						
Contributions—cash	\$ 5,221,460	\$ 9,441,807	\$ 14,663,267	\$ 6,290,314	\$ 5,549,835	\$ 11,840,149
Gifts-in-kind	68,775,461	-	68,775,461	36,626,118	-	36,626,118
Special events revenue	827,833	-	827,833	1,047,979	-	1,047,979
Investment income	228,183	-	228,183	162,327	-	162,327
Program service revenue	33,595	-	33,595	45,359	-	45,359
Other revenue	(1,872)	-	(1,872)	2,167	-	2,167
Net assets released from restriction through satisfaction of purpose and time restrictions	8,944,465	(8,944,465)	-	4,957,115	(4,957,115)	-
Total revenue, support, and reclassifications	<u>84,029,125</u>	<u>497,342</u>	<u>84,526,467</u>	<u>49,131,379</u>	<u>592,720</u>	<u>49,724,099</u>
EXPENSES:						
Program services	75,318,537	-	75,318,537	42,763,363	-	42,763,363
Supporting activities:						
Management and general	1,688,825	-	1,688,825	1,551,501	-	1,551,501
Direct donor benefits	-	-	-	148,991	-	148,991
Fundraising	1,012,647	-	1,012,647	1,343,012	-	1,343,012
	<u>2,701,472</u>	<u>-</u>	<u>2,701,472</u>	<u>3,043,504</u>	<u>-</u>	<u>3,043,504</u>
Total Expenses	<u>78,020,009</u>	<u>-</u>	<u>78,020,009</u>	<u>45,806,867</u>	<u>-</u>	<u>45,806,867</u>
Change in Net Assets	6,009,116	497,342	6,506,458	3,324,512	592,720	3,917,232
Net Assets, Beginning of Year	<u>12,968,685</u>	<u>3,729,014</u>	<u>16,697,699</u>	<u>9,644,173</u>	<u>3,136,294</u>	<u>12,780,467</u>
Net Assets, End of Year	<u>\$ 18,977,801</u>	<u>\$ 4,226,356</u>	<u>\$ 23,204,157</u>	<u>\$ 12,968,685</u>	<u>\$ 3,729,014</u>	<u>\$ 16,697,699</u>

See notes to financial statements

# CHILDREN'S HUNGER FUND

## Consolidated Statement of Functional Expense

Year Ended December 31, 2017

	Program Services	Supporting Activities		Total Expenses
		General and Administrative	Fundraising	
Donated goods and facilities	\$ 66,787,713	\$ -	\$ -	\$ 66,787,713
Personnel costs	3,678,967	1,256,431	487,766	5,423,164
Utilities	128,451	43,447	17,001	188,899
Information technology	86,406	29,390	11,436	127,232
Postage	26,872	8,021	18,807	53,700
Freight and shipping charges	559,333	-	-	559,333
Supplies	43,263	15,203	6,188	64,654
Printing	40,377	10,094	50,471	100,942
Bank charges and merchant fees	-	65,153	-	65,153
Bad debt	-	58,883	-	58,883
Rent	481,471	26,441	5,288	513,200
Facilities	55,140	2,933	587	58,660
Vehicle fuel and maintenance	94,402	-	-	94,402
Depreciation and amortization	345,048	18,354	3,671	367,073
Interest	223,551	10,794	2,270	236,615
Insurance	113,711	19,425	6,529	139,665
Taxes and licenses	34,413	6,384	2,311	43,108
Advertising	-	-	27,267	27,267
Special events	-	-	314,863	314,863
Outside services	200,629	90,312	26,554	317,495
Ministry travel	321,805	27,560	26,274	375,639
Volunteer program	61,658	-	5,364	67,022
Mercy network training	48,987	-	-	48,987
Purchased paks (food, school, pastor)	785,571	-	-	785,571
Grants (Mercy Network, food, transportation)	1,200,769	-	-	1,200,769
<b>Totals</b>	<b>\$ 75,318,537</b>	<b>\$ 1,688,825</b>	<b>\$ 1,012,647</b>	<b>\$ 78,020,009</b>

See notes to financial statements



# CHILDREN'S HUNGER FUND

## Consolidated Statement of Functional Expense

Year Ended December 31, 2016

	Program Services	Supporting Activities			Total Expenses
		General and Administrative	Direct Donor Benefits	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	59,540	11,642	-	5,656	76,838
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
Special events	-	-	-	545,253	545,253
Food, beverage, entertainment	-	-	148,991	-	148,991
Outside services	213,834	90,873	-	35,341	340,048
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
<b>Totals</b>	<b>\$ 42,763,363</b>	<b>\$ 1,551,501</b>	<b>\$ 148,991</b>	<b>\$ 1,343,012</b>	<b>\$ 45,806,867</b>

See notes to financial statements

# CHILDREN'S HUNGER FUND

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 6,506,458	\$ 3,917,232
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated inventory	(68,647,210)	(35,951,985)
Distributed inventory	66,719,459	34,523,356
Depreciation and amortization	367,072	343,139
Realized and unrealized gain on investments	(176,462)	(112,570)
Non-cash fixed asset contribution	(60,000)	(60,000)
(Gain) loss on disposal of fixed assets	1,182	(2,167)
Contributions for long-term capital projects	(2,727,058)	(2,186,647)
Net change in:		
Pledges receivable	(844,698)	166,811
Purchased inventory	19,849	(38,435)
Prepaid expenses	(43,727)	(14,492)
Deposits	1,176	(30,000)
Accounts payable	(21,220)	106,444
Grants payable	(2,000)	(14,000)
Accrued expenses	(16,600)	5,454
Deferred rent and leasehold improvement allowance	(37,477)	53,218
Deferred revenue	31,900	75,000
Net Cash Provided by Operating Activities	1,070,644	780,358
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Redemptions of investments	670,758	1,873,442
Purchases of investments	(97,506)	(1,821,586)
Proceeds from sale of fixed assets	7,088	3,400
Purchase of fixed assets	(3,175,448)	(559,544)
Net Cash Used in Investing Activities	(2,595,108)	(504,288)

(continued)

See notes to financial statements

# CHILDREN'S HUNGER FUND

## Consolidated Statements of Cash Flows (continued)

	Year Ended December 31,	
	2017	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Capital lease repayments	(16,106)	(14,570)
Borrowing on line of credit	-	750,000
Repayment on line of credit	-	(750,000)
Long-term debt repayments	(137,754)	(133,626)
Contributions for long-term capital projects	2,727,058	2,186,647
Net Cash Provided by Financing Activities	2,573,198	2,038,451
 Change in Cash and Cash Equivalents	 \$ 1,048,734	 \$ 2,314,521
Cash and Cash Equivalents, Beginning of Year	5,193,706	2,879,185
Cash and Cash Equivalents, End of Year	\$ 6,242,440	\$ 5,193,706
 <b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for interest	\$ 238,547	\$ 284,724
Fixed asset acquired through deferred lease incentive	\$ -	\$ 168,276
Fixed asset acquired through accounts payable	\$ 287,735	\$ 5,031

See notes to financial statements

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

1. NATURE OF ORGANIZATION:

Children's Hunger Fund (CHF) was incorporated in 1991 in California is a nonprofit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code (IRC) and comparable state law(s). However, the organization is subject to federal income tax on any unrelated business taxable income. In addition the organization is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

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.

CHF controls 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 was incorporated in 1997 in California as a nonprofit organization exempt from income taxes under Section 501(c) (3) of the IRC and comparable state law(s). However, the organization is subject to federal income tax on any unrelated business taxable income. In addition the organization is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated 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 consolidated financial statements to the reader.

### PRINCIPLES OF CONSOLIDATION

CHF assumed control of CHFLF during 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 and year ended December 31, 2017 have been consolidated with CHF and the CHFLF statement of financial position as of December 31, 2016 and 2017, have been consolidated with CHF. All intercompany transactions and balances have been eliminated.

### CASH AND CASH EQUIVALENTS

For consolidated 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. At December 31, 2017 and 2016, CHF's cash balances exceeded federally insured limits by \$5,933,094 and \$2,944,788, respectively.

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 consolidated 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.

#### DEFERRED INCOME

Deferred income 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 income. The revenue is recognized when it is earned.

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

### NET ASSETS

The consolidated 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 consolidated 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 exit transaction values in an actual or hypothetical market. Donated materials consist of food, personal hygiene products, toys, books, and other items.

### 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.

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

### ESTIMATES

The preparation of consolidated 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 consolidated financial statements and disclosures. Accordingly, actual results could differ from estimates.

### ADVERTISING

Advertising expense was \$11,743 and \$27,682 for the years ended December 31, 2017 and 2016, respectively. CHF uses advertising to promote the programs and fundraising events of CHF and these costs are expensed as incurred.

3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2017	2016
Cash and certificate of deposit	\$ 153,809	\$ 674,952
Equity securities, and ETFs	927,413	847,348
Closed-end mutual funds	50,945	36,721
Fixed income	213,164	183,100
	<u>\$ 1,345,331</u>	<u>\$ 1,742,121</u>

Investment income consists of the following:

Interest from cash, certificates of deposit, and money market accounts	\$ 19,270	\$ 19,035
Dividends from investments	32,451	30,722
Realized and unrealized gain (loss)	176,462	112,570
	<u>\$ 228,183</u>	<u>\$ 162,327</u>

Investment fees totaled \$1,054 and \$2,397 for the years ended December 31, 2017 and 2016, respectively.

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 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.

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	Total	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 ETFs:				
Advertising	\$ 10,080	\$ 10,080	\$ -	\$ -
Biotech	2,500	2,500	-	-
Broadcasting TV	12,741	12,741	-	-
Chemicals-diversified	38,110	38,110	-	-
Consumer goods	67,059	67,059	-	-
Financial Services	202,702	202,702	-	-
Healthcare	100,272	100,272	-	-
Industrial goods	94,736	94,736	-	-
Industrial equipment	28,500	28,500	-	-
Insurance	27,513	27,513	-	-
Medical instruments	16,160	16,160	-	-
Oil and gas	98,173	98,173	-	-
Railroads	30,761	30,761	-	-
REIT	27,010	27,010	-	-
Retail	3,160	3,160	-	-
Shipping	8,661	8,661	-	-
Steel and iron	50,232	50,232	-	-
Steel (and other metals)	18,960	18,960	-	-
Tech	90,083	90,083	-	-
Total equity securities and ETFs	927,413	927,413	-	-
Corporate bonds	213,164	-	213,164	-
Closed-end mutual funds	50,945	50,945	-	-
	<u>\$ 1,191,522</u>	<u>\$ 978,358</u>	<u>\$ 213,164</u>	<u>\$ -</u>



# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS, continued:

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

	Total	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 ETFs:				
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 ETFs	847,348	847,348	-	-
Closed-end mutual funds	36,721	36,721	-	-
Corporate bonds	183,100	-	183,100	-
	\$ 1,067,169	\$ 884,069	\$ 183,100	\$ -

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

5. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of the following:

	December 31,	
	2017	2016
Land	\$ 4,577,143	\$ 4,577,143
Buildings and improvements	5,319,043	5,033,670
Furniture and equipment	1,044,228	939,287
Vehicle acquired through capital lease	124,712	124,712
Vehicles	510,909	501,662
	11,576,035	11,176,474
Less accumulated depreciation and amortization	(2,273,802)	(1,909,946)
Construction in process	3,680,484	568,348
Land, building, and equipment, net	12,982,717	9,834,876
Add: prepaid loan costs, net of amortization	15,965	18,700
Less: debt secured by land, buildings, and equipment	(4,974,609)	(5,115,098)
Less: capital lease secured by vehicle	(77,805)	(108,481)
Net investment in land, buildings, and equipment	\$ 7,946,268	\$ 4,629,997

Accumulated amortization related to the vehicle under capital lease was \$70,670 and \$45,728 at December 31, 2017 and 2016, respectively.

6. LONG-TERM DEBT:

Long-term debt consists of:

	December 31,	
	2017	2016
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.	\$ 4,974,609	\$ 5,115,098
Revolving line of credit with a bank, bearing interest at the bank's prime rate plus .90% (4.15% at December 31, 2017), 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, maturing September 2018.	-	-
Less: prepaid loan costs	(15,965)	(18,700)
	4,958,644	5,096,398
Less: current portion	(146,855)	(137,666)
Long-term debt	\$ 4,811,789	\$ 4,958,732

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

6. LONG-TERM DEBT, continued:

At December 31, 2017, annual maturities, are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 146,855
2019	153,605
2020	160,070
2021	168,020
2022	175,742
Thereafter	<u>4,170,317</u>
	<u>\$ 4,974,609</u>

CHF was in compliance with, or had received waivers for, all financial and reporting covenants at December 31, 2017 and 2016. No interest was capitalized during the years ended December 31, 2017 and 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, 2017 and 2016.

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. The deferred rent and lease incentive 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>	
2018	\$ 25,068
2019	25,068
2020	25,068
2021	<u>25,068</u>
	100,272
Less: amount representing interest	<u>(22,467)</u>
	77,805
Less: current portion	<u>(16,144)</u>
Long-term capital lease	<u>\$ 61,661</u>

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

9. COMMITMENTS AND OPERATING LEASES:

CHF holds operating leases for warehouses in San Antonio, Texas, and Dallas, Texas, and for office equipment, with monthly payments of \$49,626, which leases expire at various time through 2021. For the years ended December 31, 2017 and 2016, the rent and lease expense was \$547,286 and \$442,317 respectively. Future payments under the leases are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 564,006
2019	387,511
2020	353,619
2021	<u>208,462</u>
	<u>\$ 1,513,598</u>

CHF has entered into several contracts related to construction and improvements at the Los Angeles headquarters. As of December 31, 2017, remaining costs to be incurred under those contracts totaled approximately \$1,861,000. Those costs are expected to be incurred in 2018.

10. NET ASSETS:

Temporarily restricted net assets are available for:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Capital programs—building	\$ 1,505,021	\$ 1,827,733
Pledges receivable	957,978	91,691
African programs	173,064	699,911
Emergency relief	831,677	564,779
Food	90,845	-
Asian programs	147,275	164,181
Sustainability programs	91,661	105,688
Bibles	89,382	81,443
International mercy networks	83,955	-
Refugee care	79,448	96,071
Latin American programs	42,830	67,751
Orphan care	38,059	-
European programs	35,677	300
Pastors pak program	25,445	11,408
Seed programs	21,241	13,241
Other	12,798	4,817
	<u>\$ 4,226,356</u>	<u>\$ 3,729,014</u>

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

11. ENDOWMENT FUNDS:

CHFLF's board has established a quasi-endowment by designating the investment balance as an endowment under Uniform Prudent Management of Institutional Funds (UPMIFA). 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 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

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 1,324,626	\$ -	\$ -	\$ 1,324,626

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

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

11. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ 1,136,574	\$ -	\$ -	\$ 1,136,574
Investment return:				
Interest and dividend income reinvested	42,123	-	-	42,123
Realized and unrealized gains and losses	180,929	-	-	180,929
Total investment return	223,052	-	-	223,052
Additions to endowment	-	-	-	-
Appropriation of endowment assets for expenditure	(35,000)	-	-	(35,000)
Endowment net assets, December 31, 2017	<u>\$ 1,324,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,324,626</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ 1,136,574</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,136,574</u>

# CHILDREN'S HUNGER FUND

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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:

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, 2017 and 2016.

A member of the board of directors provided donated construction and project management services related to the Poverty Encounter project. The estimated value of these services totaled \$60,000 for each of the years ended December 31, 2017 and 2016.

CHF occasionally purchases catering and audio visual services from vendors owned by family members of management. The amounts paid for these services totaled \$412 and \$2,066 for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016, CHF contributed \$70,171 and \$65,964, respectively, to this plan.

14. CONSOLIDATED FINANCIAL STATEMENT REVISION

Subsequent to issuance of the consolidated financial statements on May 31, 2018, it was determined the expenses related to special events held by CHF during the year ended December 31, 2017, of \$314,863 were not properly reported. Those expenses were originally reported as cost of sales (direct donor benefits), which implied CHF charged attendees of the special events. However, the attendees were not charged to attend the events. Therefore, the expenses of \$314,863 have been recharacterized as special events expenses in the consolidated statement of functional expenses for the year ended December 31, 2017. Additionally, for the year ended December 31, 2016, as a result of a reclassification of special events expenses, special events revenue and related expenses were increased by a total of \$694,244 as compared to the amount originally reported in the December 31, 2016, consolidated statement of activities. In the financial statements released on May 31, 2018, the \$694,244 of expenses were reported as cost of sales in the consolidated statement of functional expenses. Those expenses have been recharacterized from cost of sales to direct donor benefits for \$148,991 and fundraising for \$545,253. No other changes were made to the financial statements.

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 31, 2018, which represents the date the consolidated 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 consolidated financial statements of Children's Hunger Fund and its subsidiary as of and for the years ended December 31, 2017 and 2016, and our report thereon dated May XX, 2018 which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position as of December 31, 2017 and 2016, and the consolidating statements of activities for the year ended December 31, 2017 and 2016, are presented for purposes of additional analysis of the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Capin Crouse LLP*

Tarzana, California  
May 31, 2018

# CHILDREN'S HUNGER FUND

## Consolidating Statement of Financial Position

December 31, 2017

	CHF	CHFLF	Totals
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 6,230,783	\$ 11,657	\$ 6,242,440
Pledges and accounts receivable (net of allowance for uncollectible pledges of \$25,028)	1,032,978	4,174	1,037,152
Investments	20,705	-	20,705
Inventory	7,486,178	-	7,486,178
Prepaid expenses	291,225	2,576	293,801
	15,061,869	18,407	15,080,276
Endowment investments	-	1,324,626	1,324,626
Deposits	60,953	-	60,953
Land, buildings and equipment - net	12,982,717	-	12,982,717
	15,061,869	18,407	15,080,276
<b>Total Assets</b>	<b>\$28,105,539</b>	<b>\$ 1,343,033</b>	<b>\$29,448,572</b>
<b>LIABILITIES AND NET ASSETS:</b>			
Current liabilities:			
Accounts payable	\$ 770,967	\$ 4,010	\$ 774,977
Accrued expenses	20,036	-	20,036
Wages and related expense payable	122,036	-	122,036
Deferred income	106,900	-	106,900
Current portion of deferred rent and lease incentives	37,177	-	37,177
Current portion of capital lease obligation	16,144	-	16,144
Current portion of long-term debt	146,855	-	146,855
	1,220,115	4,010	1,224,125
Deferred rent and lease incentives— net of current portion	146,840	-	146,840
Capital lease obligation—net of current portion	61,661	-	61,661
Debt - net of current portion	4,811,789	-	4,811,789
<b>Total liabilities</b>	<b>6,240,405</b>	<b>4,010</b>	<b>6,244,415</b>

(continued)

See notes to financial statements

# CHILDREN'S HUNGER FUND

## Consolidating Statement of Financial Position

December 31, 2017

(continued)

	<u>CHF</u>	<u>CHFLF</u>	<u>Totals</u>
Net Assets:			
Unrestricted			
Undesignated	9,692,510	14,397	9,706,907
Designated by board of directors for endowment	-	1,324,626	1,324,626
Net investment in land, buildings, and equipment	7,946,268	-	7,946,268
	<u>17,638,778</u>	<u>1,339,023</u>	<u>18,977,801</u>
Temporarily restricted	4,226,356	-	4,226,356
Total net assets	<u>21,865,134</u>	<u>1,339,023</u>	<u>23,204,157</u>
Total Liabilities and Net Assets	<u>\$28,105,539</u>	<u>\$ 1,343,033</u>	<u>\$29,448,572</u>

See notes to financial statements

# CHILDREN'S HUNGER FUND

## Consolidating Statement of Financial Position

December 31, 2016

	CHF	CHFLF	Totals
<b>ASSETS:</b>			
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	-	605,547
Inventory	5,578,276	-	5,578,276
Prepaid expenses	245,911	4,163	250,074
	10,767,160	50,517	10,817,677
Cash restricted for construction costs	1,002,380	-	1,002,380
Endowment investments	-	1,136,574	1,136,574
Deposits	62,129	-	62,129
Land, buildings and equipment—net	9,834,876	-	9,834,876
	10,767,160	50,517	10,817,677
Cash restricted for construction costs	1,002,380	-	1,002,380
Endowment investments	-	1,136,574	1,136,574
Deposits	62,129	-	62,129
Land, buildings and equipment—net	9,834,876	-	9,834,876
Land, buildings and equipment—net	9,834,876	-	9,834,876
Total Assets	\$21,666,545	\$ 1,187,091	\$22,853,636
<b>LIABILITIES AND NET ASSETS:</b>			
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

## Consolidating 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

### Consolidating Statement of Activities

Year Ended December 31, 2017

	CHF			CHFLF	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:					
Contributions—cash	\$ 5,204,333	\$ 9,441,807	\$ 14,646,140	\$ 17,127	\$ 14,663,267
Gifts-in-kind	68,416,210	-	68,416,210	359,251	68,775,461
Special events support—net	827,833	-	827,833	-	827,833
Investment income	4,647	-	4,647	223,536	228,183
Program service revenue	33,595	-	33,595	-	33,595
Other revenue	(1,872)	-	(1,872)	-	(1,872)
Net assets released from restriction through satisfaction of purpose and time restrictions	8,944,465	(8,944,465)	-	-	-
<b>Total revenue, support, and reclassifications</b>	<b>83,429,211</b>	<b>497,342</b>	<b>83,926,553</b>	<b>599,914</b>	<b>84,526,467</b>
EXPENSES:					
Program services	74,929,877	-	74,929,877	388,660	75,318,537
Supporting activities:					
Management and general	1,632,903	-	1,632,903	55,922	1,688,825
Fund-raising	1,011,247	-	1,011,247	1,400	1,012,647
	<b>2,644,150</b>	<b>-</b>	<b>2,644,150</b>	<b>57,322</b>	<b>2,701,472</b>
<b>Total Expenses</b>	<b>77,574,027</b>	<b>-</b>	<b>77,574,027</b>	<b>445,982</b>	<b>78,020,009</b>
Change in net assets	5,855,184	497,342	6,352,526	153,932	6,506,458
Net Assets, Beginning of Year	11,783,594	3,729,014	15,512,608	1,185,091	16,697,699
Net Assets, End of Year	<b>\$ 17,638,778</b>	<b>\$ 4,226,356</b>	<b>\$ 21,865,134</b>	<b>\$ 1,339,023</b>	<b>\$ 23,204,157</b>

See notes to financial statements

## CHILDREN'S HUNGER FUND

### Consolidating Statement of Activities

Year Ended December 31, 2016

	CHF			CHFLF	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>					
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	1,047,979	-	1,047,979	-	1,047,979
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)	-	-	-
<b>Total revenue, support, and reclassifications</b>	<b>48,361,744</b>	<b>592,720</b>	<b>48,954,464</b>	<b>769,635</b>	<b>49,724,099</b>
<b>EXPENSES:</b>					
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
Direct donor benefits	148,991	-	148,991	-	148,991
Fund-raising	1,342,036	-	1,342,036	976	1,343,012
	<u>3,001,974</u>	<u>-</u>	<u>3,001,974</u>	<u>41,530</u>	<u>3,043,504</u>
<b>Total Expenses</b>	<b>45,175,226</b>	<b>-</b>	<b>45,175,226</b>	<b>631,641</b>	<b>45,806,867</b>
Change in net assets	3,186,518	592,720	3,779,238	137,994	3,917,232
Net Assets, Beginning of Year	8,597,076	3,136,294	11,733,370	1,047,097	12,780,467
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