

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

March 31, 2020 and 2019

CHILDREN'S HUNGER FUND AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Children's Hunger Fund and its subsidiary (collectively, CHF), which comprise the consolidated statements of financial position as of March 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year and fifteen months then ended, respectively, 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 the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

The Board of Directors
Children's Hunger Fund and Subsidiary
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 March 31, 2020 and 2019, and the changes in their net assets and cash flows for the year and fifteen months then ended, respectively, in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Tarzana, California
July 22, 2020

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Financial Position

	March 31,	
	2020	2019
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 8,097,861	\$ 4,130,999
Pledges and accounts receivable—net	18,750	47,473
Investments	1,008	18,933
Inventory	4,837,476	2,417,405
Prepaid expenses	518,669	336,992
	13,473,764	6,951,802
Endowment investments	1,214,751	1,296,695
Deposits	71,953	71,953
Asset held for sale	-	213,300
Beneficial interest in trusts	61,217	61,217
Cash held for long-term purpose	30,000	-
Land, buildings and equipment—net	15,099,568	16,074,249
	15,099,568	16,074,249
Total Assets	\$ 29,951,253	\$ 24,669,216
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 247,507	\$ 331,306
Accrued expenses	338,985	218,309
Deferred income	44,867	40,942
Current portion of other liabilities	59,706	56,975
Current portion of long-term debt	162,427	154,741
	853,492	802,273
Other liabilities—net of current portion	52,325	126,470
Long-term debt—net of current portion	4,461,429	4,621,199
	5,367,246	5,549,942
Net Assets:		
Without donor restrictions:		
Undesignated	20,213,720	16,343,265
Designated by board of directors for endowment	1,214,751	1,296,695
	21,428,471	17,639,960
With donor restrictions	3,155,536	1,479,314
	24,584,007	19,119,274
Total Liabilities and Net Assets	\$ 29,951,253	\$ 24,669,216

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDAIRY

Consolidated Statements of Activities

	Year Ended March 31, 2020			Fifteen Months Ended March 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:						
Contributions—cash	\$ 11,422,983	\$ 3,346,036	\$ 14,769,019	\$ 10,451,825	\$ 4,806,890	\$ 15,258,715
Gifts-in-kind	49,990,586	-	49,990,586	50,632,083	-	50,632,083
Special events revenue	1,340,970	-	1,340,970	472,733	-	472,733
Investment income (loss)	(33,539)	-	(33,539)	32,191	-	32,191
Program service revenue	132,867	-	132,867	135,172	-	135,172
Other income	242,976	-	242,976	3,179	-	3,179
Net assets released from restriction through satisfaction of purpose and time restrictions	1,669,814	(1,669,814)	-	7,553,932	(7,553,932)	-
Total Revenue, Support, and Reclassifications	64,766,657	1,676,222	66,442,879	69,281,115	(2,747,042)	66,534,073
EXPENSES:						
Program services	58,015,089	-	58,015,089	67,400,143	-	67,400,143
Supporting activities:						
Management and general	1,881,231	-	1,881,231	2,181,068	-	2,181,068
Fundraising	1,081,826	-	1,081,826	1,037,745	-	1,037,745
	2,963,057	-	2,963,057	3,218,813	-	3,218,813
Total Expenses	60,978,146	-	60,978,146	70,618,956	-	70,618,956
 Change in Net Assets	 3,788,511	 1,676,222	 5,464,733	 (1,337,841)	 (2,747,042)	 (4,084,883)
Net Assets, Beginning of Period	17,639,960	1,479,314	19,119,274	18,977,801	4,226,356	23,204,157
 Net Assets, End of Period	 <u>\$ 21,428,471</u>	 <u>\$ 3,155,536</u>	 <u>\$ 24,584,007</u>	 <u>\$ 17,639,960</u>	 <u>\$ 1,479,314</u>	 <u>\$ 19,119,274</u>

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statement of Functional Expense

Year Ended March 31, 2020

	Program Services	Supporting Activities:		Total Expenses
		General and Administrative	Fundraising	
Donated goods and services	\$47,585,220	\$ 19,688	\$ 6,798	\$47,611,706
Personnel costs	4,717,688	1,212,594	434,170	6,364,452
Grants to ministry partners	1,810,124	-	-	1,810,124
Depreciation and amortization	860,873	45,791	9,158	915,822
Ministry resources (food, school supplies, books)	654,999	-	-	654,999
Rent	549,422	29,225	5,845	584,492
Special events	-	-	426,754	426,754
Freight and shipping charges	362,280	-	-	362,280
Ministry travel	268,003	31,790	29,039	328,832
Information technology	195,817	74,833	26,702	297,352
Outside services	27,735	230,014	3,782	261,531
Interest	205,644	10,631	2,126	218,401
Utilities	136,170	51,580	18,569	206,319
Insurance	143,741	28,966	9,433	182,140
Emergency relief	141,780	-	-	141,780
Printing	50,076	12,519	62,596	125,191
Bank charges and merchant fees	-	100,540	1,016	101,556
Vehicle fuel and maintenance	81,659	-	-	81,659
Facilities	54,792	2,914	583	58,289
Supplies	41,980	12,462	2,516	56,958
Taxes and licenses	47,387	4,229	1,164	52,780
Mercy network training	39,667	-	-	39,667
Postage	20,816	6,791	10,951	38,558
Advertising	-	-	27,292	27,292
Volunteer expenses	15,884	-	-	15,884
Dues and subscriptions	3,332	6,664	3,332	13,328
	<u>\$58,015,089</u>	<u>\$ 1,881,231</u>	<u>\$ 1,081,826</u>	<u>\$60,978,146</u>

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statement of Functional Expense

Fifteen Months Ended March 31, 2019

	Program Services	Supporting Activities:		Total Expenses
		General and Administrative	Fundraising	
Donated goods and services	\$ 55,863,554	\$ 9,385	\$ 5,057	\$ 55,877,996
Personnel costs	5,454,596	1,347,337	482,177	7,284,110
Grants to ministry partners	1,618,872	-	-	1,618,872
Depreciation and amortization	608,839	32,385	6,477	647,701
Ministry resources (food, school supplies, books)	782,511	-	-	782,511
Rent	646,313	34,378	6,876	687,567
Special events	-	-	296,597	296,597
Freight and shipping charges	630,911	-	-	630,911
Ministry travel	372,025	39,081	36,438	447,544
Information technology	153,307	58,896	20,905	233,108
Outside services	45,545	369,875	6,211	421,631
Interest	267,025	13,695	2,739	283,459
Utilities	182,295	69,051	24,858	276,204
Insurance	148,840	24,107	7,611	180,558
Emergency relief	94,413	-	-	94,413
Printing	52,943	13,236	66,179	132,358
Bank charges and merchant fees	-	98,467	759	99,226
Vehicle fuel and maintenance	108,255	-	-	108,255
Facilities	92,075	4,898	980	97,953
Supplies	64,498	11,818	4,254	80,570
Taxes and licenses	48,637	12,385	4,301	65,323
Mercy network training	110,220	-	-	110,220
Postage	27,864	8,852	18,482	55,198
Advertising	-	-	43,034	43,034
Volunteer expenses	22,795	-	-	22,795
Dues and subscriptions	3,810	7,620	3,810	15,240
Bad debt	-	25,602	-	25,602
Totals	\$ 67,400,143	\$ 2,181,068	\$ 1,037,745	\$ 70,618,956

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended March 31, 2020	Fifteen Months Ended March 31, 2019
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,464,733	\$ (4,084,883)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated inventory	(49,514,531)	(50,109,335)
Distributed inventory	47,135,656	55,355,252
Depreciation and amortization	918,559	651,121
Realized and unrealized (gain) loss on investments	101,832	(32,191)
(Gain) Loss on disposal of land, buildings and equipment	(203,548)	2,595
Net change in:		
Pledges and accounts receivable	28,723	989,679
Purchased inventory	(41,196)	(177,144)
Prepaid expenses	(181,677)	(43,191)
Deposits	-	(11,000)
Beneficial interest in trusts	-	(61,217)
Accounts payable	(83,799)	(155,936)
Accrued expenses	120,676	76,237
Deferred rent and lease incentives	(51,253)	(55,917)
Deferred income	3,925	(65,958)
Net Cash Provided by Operating Activities	<u>3,698,100</u>	<u>2,278,112</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	39,706	934,774
Purchases of investments	(41,669)	(872,880)
Proceeds from sale of land, buildings and equipment	640,000	292
Purchases of land, buildings and equipment	(164,293)	(4,243,155)
Net Cash Provided by (Used in) Investing Activities	<u>473,744</u>	<u>(4,180,969)</u>

(continued)

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

	Year Ended March 31, 2020	Fifteen Months Ended March 31, 2019
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease repayments	(20,161)	(22,460)
Long-term debt repayments	(154,821)	(186,124)
Net Cash Used In Financing Activities	<u>(174,982)</u>	<u>(208,584)</u>
Change in Cash and Cash Equivalents	3,996,862	(2,111,441)
Cash and Cash Equivalents, Beginning of Period	<u>4,130,999</u>	<u>6,242,440</u>
Cash and Cash Equivalents, End of Period	<u>\$ 8,127,861</u>	<u>\$ 4,130,999</u>
 RECONCILIATION OF CASH BALANCES:		
Cash and cash equivalents	\$ 8,097,861	\$ 4,130,999
Cash held for long-term purpose	30,000	-
Total Cash and Cash Equivalents	<u>\$ 8,127,861</u>	<u>\$ 4,130,999</u>
 SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	<u>\$ 218,995</u>	<u>\$ 284,166</u>
Assets transferred from land, buildings and equipment to asset held for sale	<u>\$ -</u>	<u>\$ 213,300</u>

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

1. NATURE OF ORGANIZATION:

Children's Hunger Fund (CHF) was incorporated in 1991 in California as 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, CHF is subject to federal income tax on any unrelated business taxable income. In addition, CHF 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 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. During the fifteen month period ended March 31, 2019, CHF and CHFLF both changed their fiscal years from December 31 to March 31. All intercompany transactions and balances have been eliminated. Collectively, CHF and CHFLF are referred to as CHF.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. CHF has not experienced any losses on these accounts. As of March 31, 2020 and 2019, CHF's cash balances exceeded federally insured limits by approximately \$7,473,000 and \$3,113,000, respectively.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PLEDGES AND ACCOUNTS RECEIVABLE

Unconditional promises to give are recognized as revenue 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. As of March 31, 2020 and 2019, CHF has recorded an allowance for uncollectible pledges of approximately \$0 and \$25,000, respectively.

INVESTMENTS

Investments consist of shares of equity securities, exchange traded funds (ETFs), corporate bonds, mutual funds, and cash and certificates of deposit. Investments other than cash and certificates of deposit, 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.

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. All investments, except cash and CDs, are valued using level 1 inputs.

INVENTORY

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

PREPAID EXPENSES

Prepaid expenses consist primarily of prepaid events and prepaid insurance for future periods.

LAND, BUILDINGS, AND EQUIPMENT

Expenditures for land, buildings, and equipment over \$1,000 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 five to forty 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 AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

NET ASSETS

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

Net assets without donor restrictions 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.

Net assets with donor restrictions 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.

REVENUE, SUPPORT AND EXPENSES

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

Contributions and grants are recorded as net assets with donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions and are reported in the consolidated statements 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 placed in service.

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

Program service revenue is shown net of cost of goods sold. Total cost of goods sold was approximately \$25,000 and \$20,000, for the year and fifteen months ended March 31, 2020 and March 31, 2019, respectively.

During the year ended March 31, 2020, CHF received 25.6% of its cash contributions from one donor and 47.09% of its cash contributions from the top four donors.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

GIFTS-IN-KIND

Donated materials have been recorded as income at the estimated fair value of the material received. The fair 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.

During the year ended March 31, 2020, CHF received 37.6% of its gift-in-kind contributions from two donors and 53.3% of its gift-in-kind contributions from the top four donors.

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 services and supporting activities benefited. Salaries and benefits and information technology costs have been allocated based on an estimate of time spent on each activity. Facility related costs are allocated based on the square footage dedicated to each activity. Other costs are allocated based on management estimates.

ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted 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 approximately \$27,000 and \$43,000 for the year and fifteen months ended March 31, 2020 and 2019, respectively. CHF uses advertising to promote the programs and fundraising events of CHF and these costs are expensed as incurred.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. CHF adopted the provisions of this new standard during the year ended March 31, 2020. The new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard had an immaterial effect on the financial statements.

In 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. CHF adopted the provisions of this new standard during the year ended March 31, 2020. The new standard clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction. Adoption of this standard had no effect on change in net assets or net assets in total.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

3. FUNDS AVAILABLE AND LIQUIDITY:

The following reflects CHF's financial assets reduced by amounts not available for general use because of contractual, donor-imposed restrictions or board designations within one year of the consolidated statements of financial position.

	March 31,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 8,097,861	\$ 4,128,752
Pledges and accounts receivable	18,750	47,473
Investments	1,008	18,933
Endowment investments	1,214,751	1,296,695
Cash held for long-term purpose	30,000	-
Financial Assets, at period end	<u>9,362,370</u>	<u>5,491,853</u>
Less those not available for general expenditure within one year:		
Cash held for long-term purpose	(30,000)	-
Board designated investments for endowment funds	<u>(1,163,751)</u>	<u>(1,246,695)</u>
Financial assets available for general expenditure within one year	<u>\$ 8,168,619</u>	<u>\$ 4,245,158</u>

CHF has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. CHF is substantially supported by contributions without donor restrictions. CHF has no formal policy to maintain cash reserves, but prepares regular cash projections to monitor available funds to cover coming needs. Additionally, CHF has a \$900,000 line of credit with a bank which could be used to meet liquidity needs. Further, because the endowment funds are board designated, the board can remove the designation at any time and make the funds immediately available for use.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

4. INVESTMENTS AND ENDOWMENT INVESTMENTS:

Investments and endowment investments consist of the following:

	March 31,	
	2020	2019
Cash and certificates of deposit	\$ 54,356	\$ 147,502
Equity securities and ETFs	535,891	692,316
Closed-end Mutual funds	367,567	297,221
Fixed income	257,945	178,589
	\$ 1,215,759	\$ 1,315,628

5. 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 March 31, 2020 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	\$ 535,891	\$ 535,891	\$ -	\$ -
Corporate bonds	257,945	-	257,945	-
Closed-end mutual funds	367,567	367,567	-	-
Investments at fair value	1,161,403	\$ 903,458	\$ 257,945	\$ -
Cash and certificates of deposit	54,356			
Total investments	\$ 1,215,759			

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

5. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at March 31, 2019 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:	\$ 692,316	\$ 692,316	\$ -	\$ -
Corporate bonds	178,589	-	178,589	-
Closed-end mutual funds	297,221	297,221	-	-
Investments at fair value	1,168,126	\$ 989,537	\$ 178,589	\$ -
Cash and certificates of deposit	147,502			
Total investments	\$ 1,315,628			

6. LAND, BUILDINGS, AND EQUIPMENT—NET:

Land, buildings, and equipment—net consist of the following:

	March 31,	
	2020	2019
Land	\$ 4,500,000	\$ 4,577,143
Buildings and improvements	9,514,159	9,645,505
Furniture and equipment	3,757,290	3,784,520
Vehicle acquired through capital lease	124,712	124,712
Vehicles	499,439	523,437
	18,395,600	18,655,317
Less accumulated depreciation and amortization	(3,296,032)	(2,581,068)
Land, building, and equipment, net	\$ 15,099,568	\$ 16,074,249

Accumulated amortization related to the vehicle under capital lease was approximately \$125,000 and \$102,000 as of March 31, 2020 and 2019, respectively.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

6. LAND, BUILDINGS, AND EQUIPMENT—NET, continued:

In 2018, the board of directors authorized the sale of the building in Illinois. CHF reclassified the building to asset held for sale as of March 31, 2019. The building was sold during the year ended March 31, 2020 and the sale resulted in a gain of approximately \$267,000.

7. LONG-TERM DEBT:

Long-term debt consists of:

	March 31,	
	2020	2019
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.	\$ 4,633,662	\$ 4,788,485
Revolving line of credit with a bank, bearing interest at the bank's prime rate plus .90% (4.15% at March 31, 2020), 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 30, 2020. CHF did not draw on the line during the year ended March 31, 2020, nor during the fifteen months ended March 31, 2019.	-	-
	4,633,662	4,788,485
Less: prepaid loan costs	(9,806)	(12,545)
	4,623,856	4,775,940
Less: current portion	(162,427)	(154,741)
	\$ 4,461,429	\$ 4,621,199

At March 31, 2020, annual maturities, are as follows:

<u>Year Ending March 31,</u>	
2021	\$ 162,427
2022	169,892
2023	177,700
2024	4,123,643
	\$ 4,633,662

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

7. LONG-TERM DEBT, continued:

CHF was in compliance with all financial and reporting covenants as of March 31, 2020 and 2019.

8. 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.

9. 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 March 31,</u>	
2021	\$ 25,068
2022	12,534
	<hr/>
	37,602
Less: amount representing interest	(2,418)
	<hr/>
	35,184
Less: current portion	(22,529)
	<hr/>
Long-term capital lease	<u>\$ 12,655</u>

10. 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 \$58,000, which leases expire at various times through 2024. For the year ended March 31, 2020, and the fifteen months ended March 31, 2019, the rent and lease expense was approximately \$609,000 and \$707,000 respectively. Future payments under the leases are as follows:

<u>Year Ending March 31,</u>	
2021	\$ 558,531
2022	358,829
2023	276,259
2024	57,283
	<hr/>
	<u>\$ 1,250,902</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

11. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consists of:

	March 31,	
	2020	2019
International mercy networks	\$ 1,169,741	\$ 272,643
International mercy center	858,408	74,681
Emergency relief	554,077	693,667
Catalog programs	482,093	374,859
Beneficial interest in trust	61,217	61,217
Capital programs—building and equipment	30,000	2,247
	<u>\$ 3,155,536</u>	<u>\$ 1,479,314</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

12. 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 Act (UPMIFA). CHFLF's endowment consists of the investment assets as a general endowment to support the mission of CHF. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors 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 net assets with donor restrictions (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 is classified as net assets with donor restrictions 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 March 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 1,214,751	\$ -	\$ 1,214,751

Endowment net asset composition by type of fund as of March 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 1,296,695	\$ -	\$ 1,296,695

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

12. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended March 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, March 31, 2019	\$ 1,296,695	\$ -	\$ 1,296,695
Investment return:			
Interest and dividend income reinvested	41,669	-	41,669
Realized and unrealized gains and losses	(108,613)	-	(108,613)
Total investment return	(66,944)	-	(66,944)
Appropriation of endowment assets for expenditure	(15,000)	-	(15,000)
Endowment net assets, March 31, 2020	\$ 1,214,751	\$ -	\$ 1,214,751

Changes in endowment net assets for the fifteen months ended March 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets December 31, 2017	\$ 1,324,626	\$ -	\$ 1,324,626
Investment return:			
Interest and dividend income reinvested	47,014	-	47,014
Realized and unrealized gains and losses	(49,946)	-	(49,946)
Total investment return	(2,932)	-	(2,932)
Appropriation of endowment assets for expenditure	(24,999)	-	(24,999)
Endowment net assets March 31, 2019	\$ 1,296,695	\$ -	\$ 1,296,695

CHFLF appropriates up to four percent of the fund's average fair value over the three previous calendar year ends for distribution each fiscal year. This policy seeks to maintain principal in the fund by spending below expected average returns.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

13. RELATED PARTY:

A member of the board of directors has provided executive consulting services to CHF and served as interim Executive Director of Ministry Development. The amount paid for these services totaled \$42,000 and \$45,000, for the year ended March 31, 2020 and the fifteen months ended March 31, 2019, respectively.

14. PENSION PLAN:

CHF has a defined contribution plan covering all employees with at least two years of service. For the year ended March 31, 2020 and the fifteen months ended March 31, 2019, CHF contributed approximately \$79,000 and \$87,000, respectively, to this plan.

15. SUBSEQUENT EVENTS:

In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. Economic uncertainties have arisen which are likely to negatively impact investment balances. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of CHF for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

In May 2020, CHF was approved for a Paycheck Protection Program loan of approximately \$1,162,000 through the Coronavirus Aid, Relief, and Economic Security Act. The loan accrues interest at 1.00% per annum and matures two years from the date it was funded. This loan may be forgiven up to the full amount if requirements set by the Small Business Administration are met.

Subsequent events have been evaluated through July 22, 2020, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

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

We have audited the consolidated financial statements of Children's Hunger Fund and its subsidiary as of and for the year ended March 31, 2020 and the fifteen months ended March 31, 2019, and our report thereon dated July 22, 2020 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 March 31, 2020 and 2019, and the consolidating statements of activities for the year ended March 31, 2020 and the fifteen months ended March 31, 2019, 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
July 22, 2020

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Financial Position

As of March 31, 2020

	CHF	CHFLF	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 8,088,140	\$ 9,721	\$ 8,097,861
Pledges and accounts receivable	18,750	-	18,750
Investments	1,008	-	1,008
Inventory	4,837,476	-	4,837,476
Prepaid expenses	515,045	3,624	518,669
	13,460,419	13,345	13,473,764
Endowment investments	-	1,214,751	1,214,751
Deposits	71,953	-	71,953
Beneficial interest in trusts	61,217	-	61,217
Cash held for long-term purposes	30,000	-	30,000
Land, buildings and equipment-net	15,099,568	-	15,099,568
	13,460,419	13,345	13,473,764
Endowment investments	-	1,214,751	1,214,751
Deposits	71,953	-	71,953
Beneficial interest in trusts	61,217	-	61,217
Cash held for long-term purposes	30,000	-	30,000
Land, buildings and equipment-net	15,099,568	-	15,099,568
	15,099,568	-	15,099,568
Total Assets	\$ 28,723,157	\$ 1,228,096	\$ 29,951,253
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 243,757	\$ 3,750	\$ 247,507
Accrued expenses	338,985	-	338,985
Deferred income	44,867	-	44,867
Current portion of deferred rent and lease incentives	37,177	-	37,177
Current portion of capital lease obligation	22,529	-	22,529
Current portion of long-term debt	162,427	-	162,427
	849,742	3,750	853,492
Deferred rent and lease incentives-net of current portion	39,670	-	39,670
Capital lease obligation-net of current portion	12,655	-	12,655
Debt-net of current portion	4,461,429	-	4,461,429
	5,363,496	3,750	5,367,246
Net Assets:			
Without donor restrictions:			
Undesignated	20,204,125	9,595	20,213,720
Designated by board of directors for endowment	-	1,214,751	1,214,751
	20,204,125	1,224,346	21,428,471
With donor restrictions			
	3,155,536	-	3,155,536
	23,359,661	1,224,346	24,584,007
Total Liabilities and Net Assets	\$ 28,723,157	\$ 1,228,096	\$ 29,951,253

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Financial Position

As of March 31, 2019

	CHF	CHFLF	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 4,106,615	\$ 24,384	\$ 4,130,999
Pledges and accounts receivable-net	47,473	-	47,473
Investments	18,933	-	18,933
Inventory	2,417,405	-	2,417,405
Prepaid expenses	333,463	3,529	336,992
	6,923,889	27,913	6,951,802
Endowment investments	-	1,296,695	1,296,695
Deposits	71,953	-	71,953
Asset held for sale	213,300	-	213,300
Beneficial interest in trusts	61,217	-	61,217
Cash held for long-term purposes	-	-	0
Land, buildings and equipment-net	16,074,249	-	16,074,249
	\$ 23,344,608	\$ 1,324,608	\$ 24,669,216
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 327,781	\$ 3,525	\$ 331,306
Accrued expenses	218,309	-	218,309
Deferred income	40,942	-	40,942
Current portion of deferred rent and lease incentives	37,177	-	37,177
Current portion of capital lease obligation	19,798	-	19,798
Current portion of long-term debt	154,741	-	154,741
	798,748	3,525	802,273
Deferred rent and lease incentives-net of current portion	90,923	-	90,923
Capital lease obligation-net of current portion	35,547	-	35,547
Debt-net of current portion	4,621,199	-	4,621,199
	5,546,417	3,525	5,549,942
Net Assets:			
Without donor restrictions			
Undesignated	16,318,877	24,388	16,343,265
Designated by board of directors for endowment	-	1,296,695	1,296,695
	16,318,877	1,321,083	17,639,960
With donor restrictions	1,479,314	-	1,479,314
	17,798,191	1,321,083	19,119,274
	\$ 23,344,608	\$ 1,324,608	\$ 24,669,216

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Activities

For the Year Ended March 31, 2020

	CHF			CHFLF		Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminations	
REVENUE, SUPPORT, AND RECLASSIFICATIONS:						
Contributions-cash	\$ 11,409,565	\$ 3,346,036	\$ 14,755,601	\$ 19,709	\$ (6,291)	\$ 14,769,019
Gifts-in-kind	49,598,676	-	49,598,676	391,910	-	49,990,586
Special events revenue	1,340,970	-	1,340,970	-	-	1,340,970
Investment income (loss)	33,405	-	33,405	(66,944)	-	(33,539)
Program service revenue	132,867	-	132,867	-	-	132,867
Other income	242,976	-	242,976	-	-	242,976
Net assets released from restriction through satisfaction of purpose and time restrictions	1,669,814	(1,669,814)	-	-	-	-
Total Revenue, Support, and Reclassifications	64,428,273	1,676,222	66,104,495	344,675	(6,291)	66,442,879
EXPENSES:						
Program services	57,612,970	-	57,612,970	408,410	\$ (6,291)	58,015,089
Supporting activities:						
Management and general	1,849,729	-	1,849,729	31,502	-	1,881,231
Fundraising	1,080,326	-	1,080,326	1,500	-	1,081,826
	2,930,055	-	2,930,055	33,002	-	2,963,057
Total Expenses	60,543,025	-	60,543,025	441,412	(6,291)	60,978,146
Change in Net Assets	3,885,248	1,676,222	5,561,470	(96,737)	-	5,464,733
Net Assets, Beginning of Period	16,318,877	1,479,314	17,798,191	1,321,083	-	19,119,274
Net Assets, End of Period	<u>\$ 20,204,125</u>	<u>\$ 3,155,536</u>	<u>\$ 23,359,661</u>	<u>\$ 1,224,346</u>	<u>\$ -</u>	<u>\$ 24,584,007</u>

See notes to consolidated financial statements

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Activities

For the Fifteen Months Ended March 31, 2019

	CHF			CHFLF		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions			
REVENUE, SUPPORT, AND RECLASSIFICATIONS:							
Contributions—cash	\$ 10,405,446	\$ 4,806,890	\$ 15,212,336	\$ 46,379	\$ -	\$ -	\$ 15,258,715
Gifts-in-kind	50,153,081	-	50,153,081	479,002	-	-	50,632,083
Special events revenue	472,733	-	472,733	-	-	-	472,733
Investment income (loss)	35,123	-	35,123	(2,932)	-	-	32,191
Program service revenue	135,172	-	135,172	-	-	-	135,172
Other income	3,179	-	3,179	-	-	-	3,179
Net assets released from restriction through satisfaction of purpose and time restrictions	7,553,932	(7,553,932)	-	-	-	-	-
Total Revenue, Support, and Reclassifications	68,758,666	(2,747,042)	66,011,624	522,449	-	-	66,534,073
EXPENSES:							
Program services	66,899,853	-	66,899,853	500,290	\$ -	-	67,400,143
Supporting activities:							
Management and general	2,142,731	-	2,142,731	38,337	-	-	2,181,068
Fundraising	1,035,983	-	1,035,983	1,762	-	-	1,037,745
	3,178,714	-	3,178,714	40,099	-	-	3,218,813
Total Expenses	70,078,567	-	70,078,567	540,389	-	-	70,618,956
Change in Net Assets	(1,319,901)	(2,747,042)	(4,066,943)	(17,940)	-	-	(4,084,883)
Net Assets, Beginning of Year	17,638,778	4,226,356	21,865,134	1,339,023	-	-	23,204,157
Net Assets, End of Year	\$ 16,318,877	\$ 1,479,314	\$ 17,798,191	\$ 1,321,083	\$ -	\$ -	\$ 19,119,274

See notes to consolidated financial statements