

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

March 31, 2022 and 2021

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

Opinion

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, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Hunger Fund and Subsidiary as of March 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Children's Hunger Fund and its subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's Hunger Fund and its subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

Auditors' Responsibilities for the Audit of the consolidated financial statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Children's Hunger Fund and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's Hunger Fund and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Capin Crouse LLP

Woodland Hills, California
June 24, 2022

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Financial Position

	March 31,	
	2022	2021
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 19,859,011	\$ 14,414,982
Pledges and accounts receivable-net	95,794	37,197
Investments	1,940,102	-
Inventory	2,354,705	2,370,691
Prepaid expenses	579,572	567,513
	24,829,184	17,390,383
Cash held for long-term purpose	6,540,000	5,040,000
Endowment investments	3,257,530	2,636,997
Deposits	45,608	55,541
Beneficial interest in trusts	61,217	61,217
Land, buildings and equipment-net	13,911,991	14,600,825
	\$ 48,645,530	\$ 39,784,963
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 175,704	\$ 337,307
Accrued expenses	534,318	351,316
Deferred income	47,294	43,750
Deferred rent and lease incentives	-	19,914
Capital lease obligation	-	12,862
Current portion of long-term debt	103,247	100,899
	860,563	866,048
Long-term debt-net of current portion	4,252,876	4,351,898
Total liabilities	5,113,439	5,217,946
Net Assets:		
Without donor restrictions:		
Undesignated	23,481,914	20,999,085
Designated by board of directors for endowment	1,757,530	1,636,997
	25,239,444	22,636,082
With donor restrictions	18,292,647	11,930,935
Total net assets	43,532,091	34,567,017
Total Liabilities and Net Assets	\$ 48,645,530	\$ 39,784,963

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Activities

	Year Ended March 31,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:						
Contributions-cash	\$ 11,106,231	\$ 11,312,733	\$ 22,418,964	\$ 12,061,997	\$ 11,914,499	\$ 23,976,496
Gifts-in-kind	104,728,643	-	104,728,643	108,450,667	-	108,450,667
Government grant	-	-	-	-	1,161,664	1,161,664
Special events revenue	1,696,723	-	1,696,723	143,400	-	143,400
Investment income	35,434	22,288	57,722	443,989	-	443,989
Program service revenue	119,196	-	119,196	44,890	-	44,890
Loss on disposal of assets and other income	(113,120)	-	(113,120)	89,492	-	89,492
Net assets released from restriction through satisfaction of purpose and time restrictions	4,973,309	(4,973,309)	-	4,300,764	(4,300,764)	-
Total Revenue, Support, and Reclassifications	122,546,416	6,361,712	128,908,128	125,535,199	8,775,399	134,310,598
EXPENSES:						
Program services	116,670,382	-	116,670,382	121,801,740	-	121,801,740
Supporting activities:						
Management and general	2,001,397	-	2,001,397	1,814,735	-	1,814,735
Fundraising	1,271,275	-	1,271,275	711,113	-	711,113
	3,272,672	-	3,272,672	2,525,848	-	2,525,848
Total Expenses	119,943,054	-	119,943,054	124,327,588	-	124,327,588
Change in Net Assets	2,603,362	6,361,712	8,965,074	1,207,611	8,775,399	9,983,010
Net Assets, Beginning of Year	22,636,082	11,930,935	34,567,017	21,428,471	3,155,536	24,584,007
Net Assets, End of Year	\$ 25,239,444	\$ 18,292,647	\$ 43,532,091	\$ 22,636,082	\$ 11,930,935	\$ 34,567,017

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended March 31, 2022

	Program Services	Supporting Activities:		Total Expenses
		General and Administrative	Fundraising	
Donated goods and services	\$ 104,761,343	\$ 14,156	\$ 5,096	\$ 104,780,595
Personnel costs	5,663,793	1,494,027	536,588	7,694,408
Grants to ministry partners	2,203,494	-	-	2,203,494
Depreciation and amortization	820,323	43,634	8,727	872,684
Emergency relief	759,921	-	-	759,921
Ministry resources (food, school supplies, books)	582,622	-	-	582,622
Special event	-	-	560,285	560,285
Rent	485,429	25,821	5,164	516,414
Freight and shipping charges	303,369	-	-	303,369
Information technology	174,691	66,846	23,821	265,358
Insurance	185,800	27,663	8,628	222,091
Utilities	122,371	46,353	16,687	185,411
Ministry travel	139,971	19,937	16,729	176,637
Interest	124,251	6,488	1,298	132,037
Outside services	10,439	105,587	1,423	117,449
Vehicle fuel and maintenance	96,200	-	-	96,200
Bank charges and merchant fees	-	105,076	-	105,076
Printing	32,706	8,177	40,883	81,766
Facilities	64,207	3,415	683	68,305
Supplies	43,202	12,805	3,019	59,026
Postage	21,884	5,957	10,095	37,936
Taxes and licenses	30,382	4,383	1,199	35,964
Mercy network training	24,172	-	-	24,172
Dues and subscriptions	5,535	11,072	5,536	22,143
Advertising	-	-	25,414	25,414
Volunteer expenses	14,277	-	-	14,277
	<u>\$ 116,670,382</u>	<u>\$ 2,001,397</u>	<u>\$ 1,271,275</u>	<u>\$ 119,943,054</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended March 31, 2021

	Program Services	Supporting Activities:		Total Expenses
		General and Administrative	Fundraising	
Donated goods and services	\$ 110,750,783	\$ 22,654	\$ 9,158	\$ 110,782,595
Personnel costs	5,016,266	1,251,012	466,610	6,733,888
Grants to ministry partners	1,729,160	-	-	1,729,160
Depreciation and amortization	841,956	44,785	8,957	895,698
Emergency relief	1,021,763	-	-	1,021,763
Ministry resources (food, school supplies, books)	604,021	-	-	604,021
Special events	-	-	2,127	2,127
Rent	551,439	29,332	5,866	586,637
Freight and shipping charges	327,045	-	-	327,045
Information technology	170,078	61,594	22,846	254,518
Insurance	171,626	26,770	8,856	207,252
Utilities	117,605	42,127	15,798	175,530
Ministry travel	26,038	4,007	3,414	33,459
Interest	177,917	9,258	1,852	189,027
Outside services	18,405	134,784	2,472	155,661
Vehicle fuel and maintenance	63,576	-	-	63,576
Bank charges and merchant fees	-	140,168	-	140,168
Printing	30,698	8,064	38,373	77,135
Facilities	54,589	2,904	581	58,074
Supplies	43,698	17,645	2,883	64,226
Postage	21,010	6,577	10,128	37,715
Taxes and licenses	46,984	4,483	1,304	52,771
Mercy network training	3,211	-	-	3,211
Dues and subscriptions	4,285	8,571	4,285	17,141
Advertising	-	-	105,603	105,603
Volunteer expenses	9,587	-	-	9,587
	<u>\$ 121,801,740</u>	<u>\$ 1,814,735</u>	<u>\$ 711,113</u>	<u>\$ 124,327,588</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 8,965,074	\$ 9,983,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated inventory	(104,728,643)	(108,272,774)
Distributed inventory	104,785,656	110,686,876
Contributions restricted for building campaign	(1,500,000)	(5,000,000)
Paycheck Protection Program loan forgiveness	-	(1,161,664)
Depreciation and amortization	872,684	895,698
Realized and unrealized (gain) loss on investments	198,878	(346,383)
(Gain) loss on disposal of land, buildings and equipment	113,120	(4,186)
Net change in:		
Pledges and accounts receivable	(58,597)	(18,447)
Purchased inventory	(41,027)	52,683
Prepaid expenses	(12,059)	(48,844)
Deposits	9,933	16,412
Accounts payable	(161,603)	89,800
Accrued expenses	183,002	12,331
Deferred rent and lease incentives	(19,914)	(56,933)
Deferred income	3,544	(1,117)
Net Cash Provided by Operating Activities	8,610,048	6,826,462
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	2,665,192	271,772
Purchases of investments	(5,424,705)	(1,346,627)
Proceeds from sale of land, buildings and equipment	-	6,000
Purchases of land, buildings and equipment	(293,512)	(398,769)
Net Cash Used by Investing Activities	(3,053,025)	(1,467,624)

(continued)

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

	Year Ended March 31,	
	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease repayments	(12,862)	(22,322)
Contributions restricted for building campaign	1,500,000	5,000,000
Paycheck Protection Program loan proceeds	-	1,161,664
Proceeds from loan refinance	-	72,122
Capitalization of loan fees	-	(102,591)
Long-term debt repayments	(100,132)	(140,590)
Net Cash Provided by Financing Activities	1,387,006	5,968,283
Change in Cash and Cash Equivalents	6,944,029	11,327,121
Cash and Cash Equivalents, Beginning of Year	19,454,982	8,127,861
Cash and Cash Equivalents, End of Year	\$ 26,399,011	\$ 19,454,982
RECONCILIATION OF CASH BALANCES:		
Cash and cash equivalents	\$ 19,859,011	\$ 14,414,982
Cash held for long-term purpose	6,540,000	5,040,000
Total Cash and Cash Equivalents	\$ 26,399,011	\$ 19,454,982
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 128,579	\$ 195,164
Non-cash transaction to recognize loan forgiveness	\$ -	\$ 1,161,664
Disposal of fully amortized capital lease	\$ 124,712	\$ -

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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. CHFLF is in process with the IRS to reclassify its foundation status from a publicly supported organization to a Type 1 supporting organization of CHF.

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

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. As of March 31, 2022 and 2021, CHF's cash balances exceeded federally insured limits by approximately \$25,653,000 and \$18,551,000, respectively. CHF has not experienced any losses on these accounts.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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. CHF has not recorded an allowance for uncollectible pledges as of March 31, 2022 and 2021, as all amounts are deemed fully collectible.

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 investment income without donor restrictions 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.

INVENTORY

Inventory consists primarily of donated goods and is recorded at estimated exit transaction fair value at the date of receipt, or at the lower of cost or net realizable value 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 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, 2022 and 2021

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, resources invested in a board designated endowment fund, and those resources invested in land, buildings and equipment.

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.

During the year ended March 31, 2021, CHF received a Paycheck Protection Program (PPP) loan of \$1,161,664. CHF incurred qualifying expenses exceeding the loan amount during the year ended March 31, 2021 and on April 7, 2021, CHF's request for loan forgiveness was granted by the Small Business Administration. The full amount of the loan is included in government grant revenue on the consolidated statements of activities.

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

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE, SUPPORT AND EXPENSES, continued

Program service revenue is shown net of cost of goods sold. Total cost of goods sold was approximately \$16,000 and \$6,000, for the years ended March 31, 2022 and 2021, respectively.

During the years ended March 31, 2022 and 2021, CHF received 31.3% and 41.7%, respectively of its cash contributions from one donor and 48.4% and 55.0%, respectively of its cash contributions from the top four donors.

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 years ended March 31, 2022 and 2021, CHF received 37.8% and 32.7%, respectively, of its gift-in-kind contributions from two donors and 46.3% and 50.1%, respectively, 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 amounts reported in the consolidated financial statements and disclosures. Accordingly, actual results could differ from estimates.

ADVERTISING

Advertising expense was approximately \$25,000 and \$106,000, for the years ended March 31, 2022 and 2021, respectively. CHF uses advertising to promote the programs and fundraising events of CHF and these costs are expensed as incurred.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

3. FUNDS AVAILABLE AND LIQUIDITY:

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

	March 31,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 19,859,011	\$ 14,414,982
Pledges and accounts receivable	95,794	37,197
Investments	1,940,102	-
Endowment investments	3,257,530	2,636,997
Cash held for long-term purpose	6,540,000	5,040,000
Financial Assets, at period end	<u>31,692,437</u>	<u>22,129,176</u>
Less those not available for general expenditure within one year:		
Cash and investments restricted for Legacy Initiative	(1,833,582)	(3,626,812)
Cash held for long-term purpose	(6,540,000)	(5,040,000)
Endowment investments	<u>(3,257,530)</u>	<u>(2,636,997)</u>
Financial assets available for general expenditure within one year	<u>\$ 20,061,325</u>	<u>\$ 10,825,367</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. Regular cash projections are prepared to monitor available funds to cover coming needs.

The CHF Board adopted a Working Capital, Opportunity Funds, and Reserves Framework in September 2021. Under this framework, CHF seeks to maintain working capital of \$2,000,000 at fiscal year-end plus reserve funds of \$1,000,000. Maintaining these levels should ensure liquidity through normal cash flow cycles and provide a contingency in the event of a short term decrease in giving. Operating funds in excess of these amounts are considered opportunity funds and may be spent on key initiatives approved by the Board through the annual budget process or special approval.

Additionally, CHF has a \$1,000,000 line of credit with a bank which could be used to meet liquidity needs. Further, because some of the endowment funds are board designated, the board can remove the designation at any time and make the funds immediately available for use. As of March 31, 2022 and 2021, board designated endowment funds were \$1,757,530 and \$1,636,997, respectively.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

4. INVESTMENTS AND ENDOWMENT INVESTMENTS:

Investments and endowment investments consist of the following:

	March 31,	
	2022	2021
Cash and certificates of deposit	\$ 239,971	\$ 53,349
Equity securities and ETF's	3,222,409	1,413,258
Corporate bonds	26,809	30,054
Bond mutual funds	518,947	504,348
Closed-end mutual funds	1,189,496	635,988
	\$ 5,197,632	\$ 2,636,997

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, 2022 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	\$ 3,222,409	\$ 3,222,409	\$ -	\$ -
Corporate bonds	26,809	-	26,809	-
Bond mutual funds	518,947	518,947	-	-
Closed-end mutual funds	1,189,496	1,189,496	-	-
Investments at fair value	4,957,661	\$ 4,930,852	\$ 26,809	\$ -
Cash and certificates of deposit	239,971			
Total investments	\$ 5,197,632			

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

5. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at March 31, 2021 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	\$ 1,413,258	\$ 1,413,258	\$ -	\$ -
Corporate bonds	30,054	-	30,054	-
Bond mutual funds	504,348	504,348	-	-
Closed-end mutual funds	635,988	635,988	-	-
Investments at fair value	2,583,648	<u>\$ 2,553,594</u>	<u>\$ 30,054</u>	<u>\$ -</u>
Cash and certificates of deposit	<u>53,349</u>			
Total investments	<u>\$ 2,636,997</u>			

6. LAND, BUILDINGS, AND EQUIPMENT-NET:

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

	March 31,	
	2022	2021
Land	\$ 4,500,000	\$ 4,500,000
Buildings and improvements	9,550,213	9,685,783
Furniture and equipment	3,569,906	3,798,935
Vehicle acquired through capital lease	124,712	124,712
Vehicles	561,187	532,432
	<u>18,306,018</u>	<u>18,641,862</u>
Less accumulated depreciation and amortization	<u>(4,394,027)</u>	<u>(4,041,037)</u>
Land, building, and equipment, net	<u>\$ 13,911,991</u>	<u>\$ 14,600,825</u>

Accumulated amortization related to the vehicle under capital lease was approximately \$125,000 as of March 31, 2022 and 2021.

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

7. LONG-TERM DEBT:

Long-term debt consists of:

	March 31,	
	2022	2021
Tax-exempt loan obligation to a financial institution, collateralized by all of CHF's assets, including real property, monthly payments of \$18,870, including principal and interest at 2.75% at March 31, 2021, maturing November 5, 2050.	\$ 4,455,256	\$ 4,555,388
Revolving line of credit with a bank, bearing interest at the bank's variable rate equal to the prime rate minus .25% and no less than 3.0% (3.0% at March 31, 2022), collateralized by a commercial security agreement covering substantially all of CHF's assets. Maximum amount available under the line is \$1,000,000. Interest-only payments due monthly, with principal due on demand, maturing November 1, 2025. CHF did not draw on the line during the year ended March 31, 2022.	-	-
	4,455,256	4,555,388
Less: prepaid loan costs	(99,133)	(102,591)
	4,356,123	4,452,797
Less: current portion	(103,247)	(100,899)
	\$ 4,252,876	\$ 4,351,898

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

7. LONG-TERM DEBT, continued:

At March 31, 2022, annual maturities, are as follows:

<u>Year Ending March 31,</u>	
2023	\$ 103,247
2024	105,837
2025	109,152
2026	112,234
2027	111,034
Thereafter	<u>3,913,752</u>
	<u>\$ 4,455,256</u>

CHF was in compliance with all financial and reporting covenants, as of March 31, 2022 and 2021.

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. During the year ended March 31, 2022, the lease was extended until January 2023.

<u>Year Ending March 31,</u>	
2023	<u>\$ 20,277</u>
	<u>\$ 20,277</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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 \$48,000, which leases expire at various times through 2025. For the years ended March 31, 2022 and 2021, the rent and lease expense was approximately \$544,000 and \$600,000, respectively. Future payments under the leases are as follows:

<u>Year Ending March 31,</u>	
2023	\$ 505,634
2024	285,070
2025	<u>88,306</u>
	<u>\$ 879,010</u>

11. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consists of:

	<u>March 31,</u>	
	<u>2022</u>	<u>2021</u>
Legacy Initiative	\$ 5,860,882	\$ 3,672,790
International Mercy Networks	2,614,098	1,102,985
Endowment	1,500,000	1,000,000
Emergency relief	740,000	366,447
Catalog programs	492,500	565,145
Poverty Encounter	483,950	-
Beneficial interest in trust	61,217	61,217
International Mercy Center	-	122,351
Capital programs-building and equipment	<u>6,540,000</u>	<u>5,040,000</u>
	<u>\$ 18,292,647</u>	<u>\$ 11,930,935</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

12. ENDOWMENT FUNDS:

CHFLF's endowment consists of an endowment with donor imposed restrictions and a quasi-endowment established by the board 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. As required by Generally Accepted Accounting Principles (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 classifies as net assets with donor restriction in perpetuity (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 net assets restricted in perpetuity would be classified as net assets restricted by purpose or time 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, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment funds	\$ 1,757,530	\$ 1,500,000	\$ 3,257,530

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

12. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of March 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds	\$ 1,636,997	\$ 1,000,000	\$ 2,636,997

Changes in endowment net assets for the year ended March 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, March 31, 2021	\$ 1,636,997	\$ 1,000,000	\$ 2,636,997
Investment return:			
Interest and dividend income reinvested	86,916	-	86,916
Realized and unrealized gains and losses	(14,608)	-	(14,608)
Total investment return	72,308	-	72,308
Additions to endowment	48,225	500,000	548,225
Endowment net assets, March 31, 2022	\$ 1,757,530	\$ 1,500,000	\$ 3,257,530

Changes in endowment net assets for the year ended March 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, March 31, 2020	\$ 1,214,751	\$ -	\$ 1,214,751
Investment return:			
Interest and dividend income reinvested	47,766	-	47,766
Realized and unrealized gains and losses	352,098	-	352,098
Total investment return	399,864	-	399,864
Additions to endowment	42,382	1,000,000	1,042,382
Appropriation of endowment assets for expenditure	(20,000)	-	(20,000)
Endowment net assets March 31, 2021	\$ 1,636,997	\$ 1,000,000	\$ 2,636,997

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

12. ENDOWMENT FUNDS, continued:

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.

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 \$0 and \$2,000, for the years ended March 31, 2022 and 2021, respectively.

A member of the CHFLF board of directors is part owner of the company that provides marketing services to CHF. The amount paid for these services totaled \$0 and \$100,000, for the years ended March 31, 2022 and 2021, respectively.

14. PENSION PLAN:

CHF has a defined contribution plan covering all employees with at least two years of service. For the years ended March 31, 2022 and 2021, CHF contributed approximately \$111,000 and \$89,000, respectively, to this plan.

15. RISKS AND UNCERTAINTIES:

CHF's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on CHF's financial position, operations, and cash flows. Possible effects may include, but are not limited to, absenteeism in CHF's workforce and a decline in value of assets held by CHF, including inventory, endowment investments and fixed assets. The financial impact, if any, cannot be estimated at this time because the duration of the pandemic cannot be estimated.

16. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through June 24, 2022, 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 and Subsidiary
Sylmar, California

We have audited the consolidated financial statements of Children's Hunger Fund and its subsidiary as of and for the years ended March 31, 2022 and 2021, and our report thereon dated June 24, 2022, 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, 2022 and 2021, and the consolidating statements of activities for the years ended March 31, 2022 and 2021, 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

Woodland Hills, California
June 24, 2022

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Financial Position

As of March 31, 2021

	CHF	CHFLF	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 10,739,578	\$ 3,675,404	\$ -	\$ 14,414,982
Pledges and accounts receivable	40,322	-	(3,125)	37,197
Inventory	2,370,691	-	-	2,370,691
Prepaid expenses	563,380	4,133	-	567,513
	13,713,971	3,679,537	(3,125)	17,390,383
Cash held for long-term purposes	40,000	5,000,000	-	5,040,000
Endowment investments	-	2,636,997	-	2,636,997
Deposits	55,541	-	-	55,541
Beneficial interest in trusts	61,217	-	-	61,217
Land, buildings and equipment-net	14,600,825	-	-	14,600,825
Total Assets	\$ 28,471,554	\$ 11,316,534	\$ (3,125)	\$ 39,784,963
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	\$ 337,307	\$ 3,125	\$ (3,125)	\$ 337,307
Accrued expenses	351,316	-	-	351,316
Deferred income	43,750	-	-	43,750
Current portion of deferred rent and lease incentives	19,914	-	-	19,914
Current portion of capital lease obligation	12,862	-	-	12,862
Current portion of long-term debt	100,899	-	-	100,899
	866,048	3,125	(3,125)	866,048
Debt-net of current portion	4,351,898	-	-	4,351,898
Total Liabilities	5,217,946	3,125	(3,125)	5,217,946
Net Assets:				
Without donor restrictions				
Undesignated	20,949,485	49,600	-	20,999,085
Designated by board of directors for endowment	-	1,636,997	-	1,636,997
	20,949,485	1,686,597	-	22,636,082
With donor restrictions	2,304,123	9,626,812	-	11,930,935
Total Net Assets	23,253,608	11,313,409	-	34,567,017
Total Liabilities and Net Assets	\$ 28,471,554	\$ 11,316,534	\$ (3,125)	\$ 39,784,963

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Activities

For the Year Ended March 31, 2022

	<u>CHF</u>	<u>CHFLF</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE, SUPPORT, AND RECLASSIFICATIONS:				
Contributions-cash	\$ 18,676,534	\$ 5,053,873	\$ (1,311,443)	\$ 22,418,964
Gifts-in-kind	104,508,197	220,446	-	104,728,643
Special events revenue	1,696,723	-	-	1,696,723
Investment income (loss)	(11,161)	68,883	-	57,722
Program service revenue	119,196	-	-	119,196
Loss on disposal of assets	(113,120)	-	-	(113,120)
Net assets released from restriction through satisfaction of purpose and time restrictions	-	-	-	-
Total Revenue, Support, and Reclassifications	<u>124,876,369</u>	<u>5,343,202</u>	<u>(1,311,443)</u>	<u>128,908,128</u>
EXPENSES:				
Program services	116,486,761	1,495,064	(1,311,443)	116,670,382
Supporting activities:				
Management and general	1,968,814	32,583	-	2,001,397
Fundraising	1,269,975	1,300	-	1,271,275
	<u>3,238,789</u>	<u>33,883</u>	<u>-</u>	<u>3,272,672</u>
Total Expenses	<u>119,725,550</u>	<u>1,528,947</u>	<u>(1,311,443)</u>	<u>119,943,054</u>
Change in Net Assets	5,150,819	3,814,255	-	8,965,074
Net Assets, Beginning of Year	<u>23,253,608</u>	<u>11,313,409</u>	<u>-</u>	<u>34,567,017</u>
Net Assets, End of Year	<u>\$ 28,404,427</u>	<u>\$ 15,127,664</u>	<u>\$ -</u>	<u>\$ 43,532,091</u>

CHILDREN'S HUNGER FUND AND SUBSIDIARY

Consolidating Statement of Activities

For the Year Ended March 31, 2021

	<u>CHF</u>	<u>CHFLF</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE, SUPPORT, AND RECLASSIFICATIONS:				
Contributions-cash	\$ 14,300,856	\$ 10,054,022	\$ (378,382)	\$ 23,976,496
Gifts-in-kind	108,038,193	412,474	-	108,450,667
Government grant	1,161,664	-	-	1,161,664
Special events revenue	143,400	-	-	143,400
Investment income (loss)	31,312	412,677	-	443,989
Program service revenue	44,890	-	-	44,890
Other income	89,492	-	-	89,492
Net assets released from restriction through satisfaction of purpose and time restrictions	-	-	-	-
Total Revenue, Support, and Reclassifications	<u>123,809,807</u>	<u>10,879,173</u>	<u>(378,382)</u>	<u>134,310,598</u>
EXPENSES:				
Program services	121,430,508	759,724	(378,382)	121,811,850
Supporting activities:				
Management and general	1,775,492	29,136	-	1,804,628
Fundraising	709,860	1,250	-	711,110
	<u>2,485,352</u>	<u>30,386</u>	<u>-</u>	<u>2,515,738</u>
Total Expenses	<u>123,915,860</u>	<u>790,110</u>	<u>(378,382)</u>	<u>124,327,588</u>
Change in Net Assets	(106,053)	10,089,063	-	9,983,010
Net Assets, Beginning of Year	<u>23,359,661</u>	<u>1,224,346</u>	<u>-</u>	<u>24,584,007</u>
Net Assets, End of Year	<u>\$ 23,253,608</u>	<u>\$ 11,313,409</u>	<u>\$ -</u>	<u>\$ 34,567,017</u>