



breadfor**theworld**

HAVE FAITH. END HUNGER.

**BREAD FOR THE WORLD, INC.
AND AFFILIATE**

**Consolidated Financial Statements and Supplemental
Information**

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)



**and
Report Thereon**



BREAD FOR THE WORLD, INC. AND AFFILIATE

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For the Year Ended December 31, 2012

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Bread for the World, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bread for the World, Inc. and Affiliate (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Emphasis of Matter

As discussed in Note 14 to the consolidated financial statements, the 2011 financial statements have been restated to correct for a reclassification of unrestricted net assets to permanently restricted net assets. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2011, consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on page 20 and 21 is presented for purposes of additional analysis and is not a required part of the 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
June 13, 2013

BREAD FOR THE WORLD, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2012
(With Summarized Financial Information as of December 31, 2011)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,643,158	\$ 3,756,587
Pledges and other receivables	3,226,947	1,213,284
Due from the Alliance	409,816	151,882
Prepaid expenses	15,896	54,576
Total Current Assets	8,295,817	5,176,329
Deposits	255,215	254,815
Pledges and other receivables, net of current portion	-	2,470,654
Investments	3,488,414	2,421,020
Fixed assets, net	1,421,861	1,526,077
TOTAL ASSETS	\$ 13,461,307	\$ 11,848,895
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,549,165	\$ 1,303,639
Due to the Alliance	11,125	27,951
Total Current Liabilities	1,560,290	1,331,590
Deferred rent and lease incentive liability	1,656,436	1,756,340
TOTAL LIABILITIES	3,216,726	3,087,930
Net Assets		
Unrestricted:		
Undesignated	1,994,216	741,922
Board designated	3,134,732	2,076,556
Unrestricted	5,128,948	2,818,478
Temporarily restricted	4,539,864	5,366,718
Permanently restricted	575,769	575,769
TOTAL NET ASSETS	10,244,581	8,760,965
TOTAL LIABILITIES AND NET ASSETS	\$ 13,461,307	\$ 11,848,895

The accompanying notes are an integral part of these consolidated financial statements.

BREAD FOR THE WORLD, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
REVENUE AND SUPPORT					
Contributions and memberships	\$ 8,616,981	\$ 125,585	\$ -	\$ 8,742,566	\$ 7,430,288
Foundation grants	52,173	4,858,964	-	4,911,137	5,863,517
Endowment and bequests	1,185,329	-	-	1,185,329	373,909
Investment income	240,743	89,291	-	330,034	42,127
Other revenue	54,758	-	-	54,758	77,497
Sale of materials	41,760	-	-	41,760	67,812
Conferences and events	-	-	-	-	54,136
Net assets released from restrictions:					
Satisfaction of program restrictions	4,400,694	(4,400,694)	-	-	-
Satisfaction of time restrictions	1,500,000	(1,500,000)	-	-	-
TOTAL REVENUE AND SUPPORT	<u>16,092,438</u>	<u>(826,854)</u>	<u>-</u>	<u>15,265,584</u>	<u>13,909,286</u>
EXPENSES					
Program Services:					
Public education	5,175,030	-	-	5,175,030	5,310,371
Outreach and advocacy	4,143,679	-	-	4,143,679	4,721,782
Public policy	1,652,487	-	-	1,652,487	2,011,954
Total Program Services	<u>10,971,196</u>	<u>-</u>	<u>-</u>	<u>10,971,196</u>	<u>12,044,107</u>
Supporting Services:					
Fundraising	1,785,073	-	-	1,785,073	1,077,264
Management and general	1,025,699	-	-	1,025,699	346,698
Total Supporting Services	<u>2,810,772</u>	<u>-</u>	<u>-</u>	<u>2,810,772</u>	<u>1,423,962</u>
TOTAL EXPENSES	<u>13,781,968</u>	<u>-</u>	<u>-</u>	<u>13,781,968</u>	<u>13,468,069</u>
CHANGE IN NET ASSETS	2,310,470	(826,854)	-	1,483,616	441,217
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>2,818,478</u>	<u>5,366,718</u>	<u>575,769</u>	<u>8,760,965</u>	<u>8,319,748</u>
NET ASSETS, END OF YEAR	<u>\$ 5,128,948</u>	<u>\$ 4,539,864</u>	<u>\$ 575,769</u>	<u>\$ 10,244,581</u>	<u>\$ 8,760,965</u>

The accompanying notes are an integral part of these consolidated financial statements.

BREAD FOR THE WORLD, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	2012 Total	2011 Total
	Public Education	Outreach and Advocacy	Public Policy		Fundraising	Management and General			
Salaries	\$ 1,763,366	\$ 1,676,061	\$ 762,277	\$ 4,201,704	\$ 135,027	\$ 805,145	\$ 940,172	\$ 5,141,876	\$ 4,924,694
Professional fees and contracts	345,551	877,698	122,359	1,345,608	301,987	366,099	668,086	2,013,694	1,608,856
Membership services	1,022,589	37	1,460	1,024,086	531,008	225	531,233	1,555,319	1,722,473
Employee benefits	449,077	437,797	225,428	1,112,302	36,249	307,817	344,066	1,456,368	1,393,340
Facilities	-	3,030	14,500	17,530	-	1,010,670	1,010,670	1,028,200	632,487
Travel	117,437	225,001	87,807	430,245	10,182	54,530	64,712	494,957	659,213
Grants	425,931	60,000	-	485,931	-	-	-	485,931	596,234
Meetings and conferences	72,099	95,252	113,516	280,867	20,383	36,899	57,282	338,149	596,487
Printing, production and design	281,555	20,595	3,774	305,924	21,068	-	21,068	326,992	373,348
Office supplies, postage and telephone	81,875	14,753	1,218	97,846	6,859	196,442	203,301	301,147	287,875
Other expenses	88,374	72,295	57,228	217,897	1,868	24,997	26,865	244,762	250,638
Depreciation and amortization	67,316	65,787	24,180	157,283	39,803	28,500	68,303	225,586	212,032
Computer services and supplies	7,126	19,061	30	26,217	28	142,742	142,770	168,987	210,392
Overhead expenses	452,734	576,312	238,710	1,267,756	680,611	(1,948,367)	(1,267,756)	-	-
TOTAL EXPENSES	\$ 5,175,030	\$ 4,143,679	\$ 1,652,487	\$ 10,971,196	\$ 1,785,073	\$ 1,025,699	\$ 2,810,772	\$ 13,781,968	\$ 13,468,069

The accompanying notes are an integral part of these consolidated financial statements.

BREAD FOR THE WORLD, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012
(With Summarized Financial Information for the Year Ended December 31, 2011)
Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,483,616	\$ 441,217
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	225,586	212,032
Realized and unrealized losses (gains)	(203,288)	77,326
Donated stock	-	(140,040)
Changes in assets and liabilities:		
Pledges and other receivables	456,991	(1,039,272)
Due from the Alliance	(257,934)	(71,133)
Prepaid expenses	38,680	2,321
Deposits	(400)	32,531
Accounts payable and accrued expenses	245,526	231,028
Deferred rent	(99,904)	343,186
Due to the Alliance	(16,826)	457
	1,872,047	89,653
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	2,867,595	815,014
Purchases of investments	(3,731,701)	(560,993)
Purchases of fixed assets	(121,370)	(52,585)
	(985,476)	201,436
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	886,571	291,089
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,756,587	3,465,498
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,643,158	\$ 3,756,587
NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Donated stock	\$ -	\$ 140,040

The accompanying notes are an integral part of these consolidated financial statements.

BREAD FOR THE WORLD, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

Bread for the World, Inc. (Bread) was established to organize Christians in the United States from various church bodies to advocate policies, both governmental and nongovernmental, that will help combat hunger and poverty in the United States of America and throughout the world. Bread for the World Institute, Inc. (the Institute) was established to conduct and gather impartial, scientific research and analysis of the causes, nature, and prevention of poverty and hunger in the United States of America and throughout the world. The dissemination of the results of such research and analysis is by means of printed and electronic materials, discussions, lectures, ecumenical liturgies, and other appropriate media. These activities are funded primarily through contributions and memberships, foundation grants, endowments, bequests, and gift annuities.

Principles of Consolidation

The accompanying consolidated financial statements include the account balances of Bread and the Institute (collectively referred to as the Organization). Bread and the Institute share the same Board of Directors and share common facilities and personnel. Bread and the Institute have been consolidated due to the presence of common control and economic interest, as required under accounting principles generally accepted in the United States of America (GAAP). All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation

The Organization reports information regarding its revenue and support and net assets in three categories: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a consolidated statement of cash flows.

Method of Accounting

The accompanying consolidated financial statements have been prepared in accordance with GAAP. The consolidated financial statements are prepared using the accrual basis of accounting and include all material receivables and payables.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and highly liquid investments with original maturities of three months or less.

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments consist of equity and fixed income mutual funds and the Evangelical Lutheran Church in America (ELCA) Endowment Trust Fund. These investments are recorded in the accompanying consolidated financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. The estimated fair values for investments in the ELCA Endowment Pooled Trust Fund, which is subject to certain withdrawal restrictions, are provided by the external investment manager and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. Because of the inherent uncertainty of valuation for these investments and in certain of the underlying investments held by the fund manager, values for those investments may differ from values that would have been used had a ready market for the investments existed. The Organization reviews and evaluates the values provided by its investment manager and agrees with the valuation methods and assumptions used in determining the fair value. Unrealized gains and losses are reported as a component of investment income and are included in the accompanying consolidated statement of activities.

Fair Value Measurements

Accounting standards define fair value and establish a framework for measuring fair value for those assets and liabilities that are measured at fair value on a recurring basis. In accordance with the fair value measurement standards, the Organization has categorized its applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets. Level 2 inputs also include net asset value (NAV) as a practical expedient for investments with notice periods for redemption of 90 days or less.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

The Organization adopted the provisions of FASB ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which requires additional disclosures about fair value measurements to further increase transparency.

Continued

BREAD FOR THE WORLD, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

1. Organization and Summary of Significant Accounting Policies (continued)

Fixed Assets and Related Depreciation and Amortization

Fixed assets consist of furniture, equipment, leasehold improvements and capitalized software and are carried at cost. Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful lives of the improvements. Furniture and equipment are depreciated over the respective assets' estimated useful lives of five to ten years on a straight-line basis. Capitalized software is amortized on a straight-line basis over an estimated useful life of five years. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of the assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts and the resulting gain or loss is included in revenue and support or expenses in the accompanying consolidated statement of activities.

Classification of Net Assets

The Organization's net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations. Unrestricted net assets also include \$2,223,024 of unrestricted net assets designated by the Board of Directors as a quasi-endowment. On an annual basis, the Organization is allowed to use a portion of the earnings for management and general expenses, which is calculated as 5% of the average balance of the investments for the past four years.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various programs or for future use.
- Permanently restricted net assets represent funds requiring that the gift be held in perpetuity and that only the investment earnings be expended for the purposes designated by the donors.

Contributions, Memberships, Grants and Endowments

All contributions, memberships, grants and endowments are considered available for unrestricted use, unless specifically restricted by the donor. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Donor restricted support is recorded as unrestricted revenue if the funds are received and the donor restrictions are met in the same year. Donated materials and equipment are recorded at fair value at the date of donation.

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions, Memberships, Grants and Endowments (continued)

Unconditional gifts and grants that are expected to be collected within one year are recorded as pledges and other receivables at their net realizable value. Unconditional gifts and grants that are expected to be collected in future years are recorded as pledges and other receivables at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the period over which the promises are to be received.

Bequests

The Organization recognizes bequests in the year the promise to give becomes unconditional, which is at the time the probate court declares the will valid and the proceeds are measurable in amount.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been allocated proportionately among the programs and supporting services based on the direct expenses incurred for each program and supporting service.

Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

2. Pledges and Other Receivables

As of December 31, 2012, the Organization's pledges and other receivables are fully collectible and due within one year.

3. Investments

At December 31, 2012, investments consisted of the following:

ELCA Endowment Pooled Trust Fund	\$ 1,927,416
Mutual funds – equity	962,950
Mutual funds – fixed income	<u>598,048</u>
Total Investments	<u>\$ 3,488,414</u>

Continued

BREAD FOR THE WORLD, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

3. Investments (continued)

For the year ended December 31, 2012, investment income is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends, net	\$ 95,264	\$ 31,482	\$ 126,746
Realized and unrealized gains	<u>145,479</u>	<u>57,809</u>	<u>203,288</u>
Total Investment Income	<u>\$ 240,743</u>	<u>\$ 89,291</u>	<u>\$ 330,034</u>

4. Fixed Assets and Related Depreciation and Amortization

Fixed assets consisted of the following at December 31, 2012:

Leasehold improvements	\$ 1,428,676
Furniture and equipment	513,705
Software	<u>27,010</u>
Total Fixed Assets	1,969,391
Less: Accumulated Depreciation and Amortization	<u>(547,530)</u>
Fixed Assets, Net	<u>\$ 1,421,861</u>

For the year ended December 31, 2012, depreciation and amortization expense totaled \$225,586.

5. Commitments and Risks

Operating Leases

The Organization leases office facilities in Washington, DC, under a noncancelable office lease, which expires on September 30, 2021. This lease agreement contains a provision for an increase in rent of 2.5% per annum on the anniversary date of the lease. The office lease also contains both a lease incentive (tenant allowance) for construction and rent abatements for the first ten months from the commencement date of the lease. The lease also required a security deposit of \$235,915, with subsequent reductions of \$78,638 on the third and fourth anniversary of the day immediately following September 30, 2011, which represents the last day of the abatement period. The office space lease was amended on June 24, 2010, to include certain additional storage space in the building. All terms, covenants and conditions of the office space lease agreement apply with respect to the storage space, except operating charges and real estate taxes.

Under GAAP, all fixed rent increases are recognized on a straight-line basis over the terms of the leases. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying consolidated statement of financial position.

Continued

BREAD FOR THE WORLD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

5. Commitments and Risks (continued)

Operating Leases (continued)

As of December 31, 2012, the future minimum rental payments required under the operating lease are as follows:

For the Year Ending December 31,	
2013	\$ 612,485
2014	627,795
2015	643,669
2016	665,426
2017	697,414
Thereafter	<u>2,963,754</u>
Total	<u>\$ 6,210,543</u>

For the year ended December 31, 2012, rent expense under this lease totaled \$958,951 and is included in facilities expense in the accompanying consolidated statement of functional expenses.

Concentration of Credit Risk

The Organization maintains its cash and cash equivalents with certain commercial financial institutions which aggregate balances may exceed at times the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2012, the Organization had \$596,634 comprised of demand deposits (excluding noninterest-bearing transaction accounts, which were fully insured regardless of their balance as of December 31, 2012) which exceeded the maximum limit insured by the FDIC.

On January 1, 2013, as a result of the expiration of the temporary provision of the Dodd-Frank Act for unlimited deposit insurance coverage for noninterest-bearing transactions accounts, the balance exceeded the maximum limit insured by the FDIC by approximately \$2,339,000. The Organization monitors the credit worthiness of these institutions and has not experienced any historical credit losses on its cash and cash equivalents.

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

6. Temporarily Restricted Net Assets

At December 31, 2012, temporarily restricted net assets were restricted for the following purposes:

Public education and other programs	\$ 2,121,569
Modern Foreign Assistance Network	1,250,745
Time restricted	500,000
D. Zeller scholarship	308,851
Capital campaign	125,000
Building fund	121,869
Accumulated endowment fund earnings	<u>111,830</u>
Total	<u>\$ 4,539,864</u>

7. Fair Value Measurements

The following table summarizes the Organization's assets measured at fair value on a recurring basis as of December 31, 2012:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Alternative investment:				
ELCA Endowment Pooled Trust Fund	\$ 1,927,416	\$ -	\$ 1,927,416	\$ -
Mutual funds – equity:				
Balanced funds	363,651	363,651	-	-
Index funds	336,597	336,597	-	-
Stock funds	239,377	239,377	-	-
Stock options	23,325	23,325	-	-
Mutual funds – fixed income:				
Short-term bond index	196,006	196,006	-	-
High-yield corporation	223,922	223,922	-	-
Foreign government bonds	<u>178,120</u>	<u>178,120</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 3,488,414</u>	<u>\$ 1,560,998</u>	<u>\$ 1,927,416</u>	<u>\$ -</u>

The Organization used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Equity and fixed income mutual funds – Valued at the net asset value (NAV) of shares held at year-end.

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

7. Fair Value Measurements (continued)

ELCA Endowment Pooled Trust Fund – Valued at the fund’s NAV, as provided by the investee fund management, unless other factors lead to a determination of fair value at a different amount. These adjustments are made in cases in which certain features and conditions of the investment warrant a further adjustment (either a discount or premium) to NAV, such as recent financial information received. As of December 31, 2012, funds valued at NAV are classified within Level 2, if the notice period for redemption is 90 days or less. As of December 31, 2012, Bread reclassified the investments managed by the ELCA Endowment Pooled Trust Fund from Level 3 to Level 2, as the investment may be redeemed at NAV at the measurement date with 10 days notice of its redemption.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows as of December 31, 2012:

	<u>ELCA Endowment Pooled Trust Fund</u>
Fair value, January 1, 2012	\$ 1,027,743
Interest and income distributions	61,484
Realized and unrealized gains	122,093
Withdrawals	(83,904)
Transfers, net	800,000
Transfer out of level 3	<u>(1,927,416)</u>
Fair Value, December 31, 2012	<u>\$ -</u>

The following information pertains to those alternative investments recorded at net asset value in accordance with *Fair Value Measurements and Disclosures* topic of FASB ASC as of December 31, 2012.

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
ELCA Pooled Endowment Fund Pooled – Trust fund	\$ 1,927,416	N/A	10 days

There are no unfunded commitments for the above fund as of December 31, 2012.

8. Endowment Funds

The Organization’s endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

8. Endowment Funds (continued)

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Organization classifies 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 endowment funds' applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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 UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

As of December 31, 2012, endowment net asset composition by type of fund is as follows:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 3,134,732	\$ -	\$ -	\$ 3,134,732
Donor-restricted endowment funds	<u>-</u>	<u>111,830</u>	<u>575,769</u>	<u>687,599</u>
Total Funds	<u>\$ 3,134,732</u>	<u>\$ 111,830</u>	<u>\$ 575,769</u>	<u>\$ 3,822,331</u>

Continued

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

8. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

For the year ended December 31, 2012, changes in endowment net assets were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year, as previously reported	\$ 2,736,617	\$ -	\$ 4,000	\$ 2,740,617
Prior period adjustment (Note 14)	(660,061)	88,292	571,769	-
Endowment net assets, beginning of year , as restated	2,076,556	88,292	575,769	2,740,617
Contribution	1,017,802	-	-	1,017,802
Investment returns:				
Interest and dividends	117,792	20,976	-	138,768
Net appreciation (realized and unrealized)	178,988	31,150	-	210,138
Amounts appropriated for expenditure	(256,406)	(28,588)	-	(284,994)
Endowment Net Assets, December 31, 2012	<u>\$ 3,134,732</u>	<u>\$ 111,830</u>	<u>\$ 575,769</u>	<u>\$ 3,822,331</u>

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA

\$ 575,769

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a purpose restriction under UPMIFA:

With purpose restriction	\$ -
Without purpose restriction	111,830
Total endowment funds classified as temporarily restricted	<u>\$ 111,830</u>

BREAD FOR THE WORLD, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

8. Endowment Funds (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2012.

Spending Policy and how the Investment Objectives Relate to Spending Policy

As stated in Note 1, the Organization has a policy of appropriating 5% of the trailing four-year average of the board-designated endowment for use in operations each year. All earnings of the investments are reinvested within the board-designated endowment. The Board of Directors intends for the endowment to be used by the Organization only upon approval by 75% of the members of the Board of Directors with fiduciary authority.

9. Retirement Plan

Bread sponsors a defined-contribution retirement plan that covers all employees who have completed at least one year of service and have worked at least 1,000 hours. Employer contributions are discretionary and are computed as 8.6% of the participant's compensation, plus 4.3% of such compensation that exceeds 25% (annualized rate of 50%) of the Social Security wage base (the 2012 wage base was \$110,100). For the year ended December 31, 2012, plan contributions totaled \$222,248.

10. Allocation of Joint Costs

The Organization incurred joint costs for direct mail and informational materials that included fundraising appeals. Therefore, these costs have been allocated in the accompanying consolidated statement of functional expenses. These costs were allocated as follows:

Public education	\$ 1,177,762
Fundraising	<u>720,120</u>
Total Joint Costs	<u>\$ 1,897,882</u>

11. Related Party Transactions

The Organization shares its premises and some administrative and program personnel with the Alliance to End Hunger (the Alliance), an organization that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Costs are allocated between the entities based on actual expenses incurred and an overhead allocation, as described in the shared services agreement between the organizations. As of December 31, 2012, the Alliance owed the Organization a net of \$398,691 related to this agreement.

BREAD FOR THE WORLD, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

12. Income Taxes

Bread and the Institute are exempt from the payment of taxes on income other than net unrelated business income under IRC Sections 501(c)(4) and 501(c)(3), respectively, of the Internal Revenue Code. No provision for income taxes was recorded for the year ended December 31, 2012, as neither Bread nor the Institute had any net unrelated business income.

During the year ended December 31, 2012, the Organization followed the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification (ASC) Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2012, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2012, the statute of limitations for tax years 2009 through 2011 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2012, the Organization had no accruals for interest and/or penalties.

13. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2011, from which the summarized information was prepared.

14. Prior Period Adjustment

During the year ended December 31, 2012, the Organization reviewed documentation received from donors relating to contributions made in prior years. During this process, the Organization identified \$571,769 of net assets that should have been previously recorded as permanently restricted net assets instead of board-designated unrestricted net assets. As a result, the Organization reclassified \$571,769 from unrestricted net assets to permanently restricted net assets as of January 1, 2012. The correction of this error had no effect on the total change in net assets in 2012.

BREAD FOR THE WORLD, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

15. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 13, 2013, the date the financial statements were available to be issued. There were no subsequent events identified through June 13, 2013 required to be disclosed in these financial statements.

SUPPLEMENTAL INFORMATION

BREAD FOR THE WORLD, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2012

	<u>Bread</u>	<u>The Institute</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,606,385	\$ 3,036,773	\$ -	\$ 4,643,158
Pledges and other receivables	36,388	3,190,559	-	3,226,947
Due from the Institute	1,009,968	-	(1,009,968)	-
Due from the Alliance	409,816	-	-	409,816
Prepaid expenses	15,715	181	-	15,896
	<u>3,078,272</u>	<u>6,227,513</u>	<u>(1,009,968)</u>	<u>8,295,817</u>
Deposits	2,476	252,739	-	255,215
Investments	569,561	2,918,853	-	3,488,414
Fixed assets, net	-	1,421,861	-	1,421,861
	<u>-</u>	<u>1,421,861</u>	<u>-</u>	<u>1,421,861</u>
TOTAL ASSETS	<u>\$ 3,650,309</u>	<u>\$ 10,820,966</u>	<u>\$ (1,009,968)</u>	<u>\$ 13,461,307</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued expenses	\$ 1,281,003	\$ 268,162	\$ -	\$ 1,549,165
Due to Bread	-	1,009,968	(1,009,968)	-
Due to the Alliance	-	11,125	-	11,125
	<u>-</u>	<u>11,125</u>	<u>-</u>	<u>11,125</u>
Total Current Liabilities	1,281,003	1,289,255	(1,009,968)	1,560,290
Deferred rent	240,820	1,415,616	-	1,656,436
	<u>240,820</u>	<u>1,415,616</u>	<u>-</u>	<u>1,656,436</u>
TOTAL LIABILITIES	<u>1,521,823</u>	<u>2,704,871</u>	<u>(1,009,968)</u>	<u>3,216,726</u>
Net Assets				
Unrestricted:				
Undesignated	1,033,006	961,210	-	1,994,216
Board designated	557,259	2,577,473	-	3,134,732
	<u>557,259</u>	<u>2,577,473</u>	<u>-</u>	<u>3,134,732</u>
Unrestricted	1,590,265	3,538,683	-	5,128,948
	<u>1,590,265</u>	<u>3,538,683</u>	<u>-</u>	<u>5,128,948</u>
Temporarily restricted	329,938	4,209,926	-	4,539,864
Permanently restricted	208,283	367,486	-	575,769
	<u>208,283</u>	<u>367,486</u>	<u>-</u>	<u>575,769</u>
TOTAL NET ASSETS	<u>2,128,486</u>	<u>8,116,095</u>	<u>-</u>	<u>10,244,581</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,650,309</u>	<u>\$ 10,820,966</u>	<u>\$ (1,009,968)</u>	<u>\$ 13,461,307</u>

BREAD FOR THE WORLD, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

	<u>Bread</u>	<u>The Institute</u>	<u>Eliminations</u>	<u>Total</u>
CHANGE IN UNRESTRICTED REVENUE AND SUPPORT				
Contributions and memberships	\$ 4,799,287	\$ 3,817,694	\$ -	\$ 8,616,981
Foundation grants	3,564	48,609	-	52,173
Endowments and bequests	136,706	1,048,623	-	1,185,329
Investment income	29,003	211,740	-	240,743
Other revenue	53,757	1,000	-	54,757
Sale of materials	41,761	-	-	41,761
Net assets released from restrictions:				
Satisfaction of program restrictions	421,979	3,978,715	-	4,400,694
Satisfaction of time restrictions	-	1,500,000	-	1,500,000
	<u>5,486,057</u>	<u>10,606,381</u>	<u>-</u>	<u>16,092,438</u>
TOTAL UNRESTRICTED REVENUE AND SUPPORT				
	<u>5,486,057</u>	<u>10,606,381</u>	<u>-</u>	<u>16,092,438</u>
EXPENSES				
Program Services:				
Public education	1,659,510	3,515,520	-	5,175,030
Outreach and advocacy	1,171,675	2,972,004	-	4,143,679
Public policy	558,047	1,094,440	-	1,652,487
	<u>3,389,232</u>	<u>7,581,964</u>	<u>-</u>	<u>10,971,196</u>
Total Program Services				
	<u>3,389,232</u>	<u>7,581,964</u>	<u>-</u>	<u>10,971,196</u>
Supporting Services:				
Fundraising	1,101,452	683,621	-	1,785,073
Management and general	443,283	582,416	-	1,025,699
	<u>1,544,735</u>	<u>1,266,037</u>	<u>-</u>	<u>2,810,772</u>
Total Supporting Services				
	<u>1,544,735</u>	<u>1,266,037</u>	<u>-</u>	<u>2,810,772</u>
TOTAL EXPENSES	<u>4,933,967</u>	<u>8,848,001</u>	<u>-</u>	<u>13,781,968</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>552,090</u>	<u>1,758,380</u>	<u>-</u>	<u>2,310,470</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Contributions and sponsorships	35,000	90,585		125,585
Foundation grants	277,000	4,581,964	-	4,858,964
Investment income	16,721	72,570	-	89,291
Net assets released from restrictions:				
Satisfaction of program restrictions	(421,979)	(3,978,715)	-	(4,400,694)
Satisfaction of time restrictions	-	(1,500,000)	-	(1,500,000)
	<u>(93,258)</u>	<u>(733,596)</u>	<u>-</u>	<u>(826,854)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
	<u>(93,258)</u>	<u>(733,596)</u>	<u>-</u>	<u>(826,854)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:				
Endowments and bequests	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-
CHANGE IN NET ASSETS	458,832	1,024,784	-	1,483,616
NET ASSETS, BEGINNING OF YEAR	<u>1,669,654</u>	<u>7,091,311</u>	<u>-</u>	<u>8,760,965</u>
NET ASSETS, END OF YEAR	<u>\$ 2,128,486</u>	<u>\$ 8,116,095</u>	<u>\$ -</u>	<u>\$ 10,244,581</u>