

Bread for the World Institute, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2016

(With Summarized Financial Information for December 31, 2015)

Bread for the World Institute, Inc.

Financial Statements

December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Bread for the World Institute, Inc.

We have audited the accompanying financial statements of Bread for the World Institute, Inc. ("the Institute"), which comprise the statement of financial position as of December 31, 2016; the related 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 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 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 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 financial statements are free from 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Institute's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 19, 2016. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
May 15, 2017

Bread for the World Institute, Inc.

Statement of Financial Position
December 31, 2016

(With Summarized Financial Information for December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,759,637	\$ 2,741,672
Pledges receivable	1,501,674	3,059,692
Due from the Alliance	14,842	74,387
Due from Bread	3,505	16,020
Prepaid expenses	<u>137,421</u>	<u>79,918</u>
Total current assets	5,417,079	5,971,689
Deposits	237,515	237,739
Pledges receivable, long-term, net	1,899,068	3,819,484
Investments	6,194,506	6,867,469
Property and equipment, net	<u>718,544</u>	<u>877,078</u>
Total assets	<u>\$ 14,466,712</u>	<u>\$ 17,773,459</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 51,311</u>	<u>\$ 184,498</u>
Total current liabilities	51,311	184,498
Deferred rent and lease incentive liability	<u>857,053</u>	<u>1,004,146</u>
Total liabilities	<u>908,364</u>	<u>1,188,644</u>
Net Assets		
Unrestricted:		
Undesignated	5,752,180	5,485,959
Board-designated (Founder's Fund)	<u>3,396,250</u>	<u>3,400,994</u>
Total unrestricted	9,148,430	8,886,953
Temporarily restricted	4,042,432	7,330,376
Permanently restricted (Endowment Fund)	<u>367,486</u>	<u>367,486</u>
Total net assets	<u>13,558,348</u>	<u>16,584,815</u>
Total liabilities and net assets	<u>\$ 14,466,712</u>	<u>\$ 17,773,459</u>

See accompanying notes.

Bread for the World Institute, Inc.

Statement of Activities
For the Year Ended December 31, 2016
(With Summarized Financial Information for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Operating Revenue and Support					
Contributions and membership	\$ 3,153,518	\$ 172,500	\$ -	\$ 3,326,018	\$ 9,406,351
Foundation grants	160,776	1,014,224	-	1,175,000	210,100
Endowments and bequests	239,116	110,861	-	349,977	297,793
Conferences and events	46,911	-	-	46,911	-
Other income	7,327	-	-	7,327	5,716
Net assets released from restrictions:					
Satisfaction of program restrictions	394,650	(394,650)	-	-	-
Satisfaction of time restrictions	4,279,592	(4,279,592)	-	-	-
Total operating revenue and support	8,281,890	(3,376,657)	-	4,905,233	9,919,960
Expenses					
Program services:					
Public education	3,659,191	-	-	3,659,191	3,592,282
Outreach and advocacy	1,809,587	-	-	1,809,587	1,807,034
Public policy	1,880,447	-	-	1,880,447	1,673,702
Total program services	7,349,225	-	-	7,349,225	7,073,018
Supporting services:					
Fundraising	399,811	-	-	399,811	477,108
Management and general	460,218	-	-	460,218	426,660
Total supporting services	860,029	-	-	860,029	903,768
Total expenses	8,209,254	-	-	8,209,254	7,976,786
Change in Net Assets from Operations	72,636	(3,376,657)	-	(3,304,021)	1,943,174
Non-Operating Activity					
Investment income (loss)	188,841	88,713	-	277,554	(36,532)
Change in Net Assets	261,477	(3,287,944)	-	(3,026,467)	1,906,642
Net Assets, beginning of year	8,886,953	7,330,376	367,486	16,584,815	14,678,173
Net Assets, end of year	\$ 9,148,430	\$ 4,042,432	\$ 367,486	\$ 13,558,348	\$ 16,584,815

See accompanying notes.

Bread for the World Institute, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Summarized Financial Information for the Year Ended December 31, 2015)

	Program Services			Total Program Services	Supporting Services		2016 Total	2015 Total
	Public Education	Outreach and Advocacy	Public Policy		Fundraising	Management and General		
Salaries	\$ 1,613,465	\$ 894,790	\$ 521,500	\$ 3,029,755	\$ 112,679	\$ 569,201	\$ 3,711,635	\$ 3,671,685
Professional fees and contracts	196,277	17,665	402,662	616,604	4,743	395,196	1,016,543	921,322
Employee benefits	427,519	259,462	171,083	858,064	51,821	249,517	1,159,402	1,044,359
Facilities	78	40	125	243	-	360,605	360,848	322,111
Printing, production, and design	250,107	10,003	16,271	276,381	54,192	1,542	332,115	506,917
Travel	132,579	146,732	61,910	341,221	13,479	43,424	398,124	390,934
Meetings and conferences	31,161	60,388	83,886	175,435	9,286	13,256	197,977	173,552
Office supplies, postage, and telephone	111,403	4,303	1,704	117,410	33,775	78,778	229,963	272,509
Depreciation and amortization	-	-	-	-	-	180,206	180,206	214,773
Membership services	95,384	8,700	1,000	105,084	39,817	367	145,268	153,486
Other expenses	100,116	56,977	28,657	185,750	3,442	-	189,192	212,393
Grants	-	-	231,690	231,690	-	-	231,690	49,500
Computer services and supplies	494	4,053	-	4,547	26	51,718	56,291	43,245
Overhead allocation	700,608	346,474	359,959	1,407,041	76,551	(1,483,592)	-	-
Total Expenses	\$ 3,659,191	\$ 1,809,587	\$ 1,880,447	\$ 7,349,225	\$ 399,811	\$ 460,218	\$ 8,209,254	\$ 7,976,786

See accompanying notes.

Bread for the World Institute, Inc.

Statement of Cash Flows
For the Year Ended December 31, 2016
(With Summarized Financial Information for the Year Ended December 31, 2015)

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (3,026,467)	\$ 1,906,642
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	180,206	214,773
Realized and unrealized (gain) loss on investments	(115,798)	198,926
Change in discount – pledges receivable	(67,243)	121,286
Change in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	3,545,677	(3,065,017)
Due from the Alliance	59,545	(74,387)
Due from Bread	12,515	(16,020)
Prepaid expenses	(57,503)	(2,570)
Increase (decrease) in:		
Accounts payable and accrued expenses	(133,187)	52,370
Due to the Alliance	-	(2,503)
Due to Bread	-	(116,969)
Deferred rent and lease incentive liability	(147,093)	(163,990)
Net cash provided by (used in) operating activities	250,652	(947,459)
Cash Flows from Investing Activities		
Proceeds from sales of investments	1,147,887	643,396
Purchases of investments	(359,126)	(3,730,289)
Purchases of property and equipment	(21,672)	(104,639)
Decrease in deposits	224	-
Net cash provided by (used in) investing activities	767,313	(3,191,532)
Net Increase (Decrease) in Cash and Cash Equivalents	1,017,965	(4,138,991)
Cash and Cash Equivalents, beginning of year	2,741,672	6,880,663
Cash and Cash Equivalents, end of year	\$ 3,759,637	\$ 2,741,672

See accompanying notes.

Bread for the World Institute, Inc.

Notes to Financial Statements

December 31, 2016

1. Nature of Operations

Bread for the World Institute, Inc. (“the Institute”), an affiliate of Bread for the World, Inc. (“Bread”), 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.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Institute’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor imposed restrictions, as follows:

- *Unrestricted net assets* represent funds that are not subject to donor imposed stipulations and are available for support of the Institute’s general operations. Unrestricted net assets include both undesignated and Board-designated quasi-endowment amounts.
- *Temporarily restricted net assets* represent funds subject to donor imposed restrictions that are met either by actions of the Institute or through the passage of time.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for general operations or restricted purposes imposed by the donors.

Cash Equivalents

The Institute considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase. Excluded from this definition of cash equivalents are amounts held for investment.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

Pledges receivable represent unconditional promises to give. Amounts to be collected more than a year after the balance sheet date are recorded net of a present value discount. The discounts on these amounts are computed using risk-free interest rates applicable to the period over which the promises are to be received. The Institute provides an allowance for doubtful pledges using the allowance method, which is based on management's judgment considering historical information. Accounts are individually analyzed for collectability, and will be reserved based on individual evaluation and specific circumstances. When all collection efforts have been exhausted, the amounts are written off against the related allowance. At December 31, 2016, no allowance was recorded as management believes that all pledges are fully collectible.

Investments

Investments are stated at fair value. The estimated fair values of investments in the Evangelical Lutheran Church in America (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 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 Institute 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 loss or income and are included in the accompanying statement of activities.

Property and Equipment

Property and equipment purchased at a cost of \$5,000 or more and with an estimated life exceeding one year are capitalized and recorded at acquisition cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from five to ten years. Leasehold improvements are amortized over the shorter of the estimated useful life or the original life of the lease. Expenditures for repairs and maintenance are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization are eliminated from the accounts and the resulting gain or loss is included in revenue and support or expenses in the accompanying statement of activities.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions, including unconditional promises to give, memberships, and foundation grants, are recognized as revenue at their estimated net realizable value in the period in which they are received or promised. The Institute 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. Contributions received are considered to be available for use unless specifically restricted by the grantor or donor to one of the Institute's programs or to a future year. Amounts received that are designated for a future period, or are restricted by the grantor or donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increase those net asset classes.

When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

All other revenues are recognized when earned.

Functional Allocation of Expenses

The costs of providing the Institute's various programs and activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Comparative Information

The 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.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies (continued)

Comparative Information (continued)

Accordingly, such information should be read in conjunction with the Institute's 2015 financial statements, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Measure of Operations

The Institute includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities, and excludes realized and unrealized gains and losses on investments.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in 2018.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through May 15, 2017, the date the financial statements were available to be issued.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

3. Concentration of Credit Risk

Financial instruments that potentially subject the Institute to significant concentrations of credit risk consist of cash and cash equivalents, investments, and pledges receivable. The Institute maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Institute has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal. Pledges receivable consist primarily of amounts due from individual donors. Management believes the credit risk related to these receivables is minimal.

4. Pledges Receivable

Pledges receivable are due as follows at December 31, 2016:

Due in less than one year	\$ 1,501,674
Due in one to five years	<u>1,966,000</u>
Total pledges receivable	3,467,674
Less: present value discount (at 1.1%)	<u>(66,932)</u>
Pledges receivable, net	<u><u>\$ 3,400,742</u></u>

5. Investments and Fair Market Value Measurements

The Institute follows FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

5. Investments and Fair Market Value Measurements (continued)

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels are recognized at the end of the reporting period.

In general, and where applicable, the Institute uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments and consists of the Institute's money markets and mutual funds. The ELCA Endowment Pooled Trust Fund is valued at the fund's net asset value (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, 2016, funds valued at NAV are classified within Level 2, if the notice period for redemption is 90 days or less.

The following table presents the Institute's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Alternative investments:				
ELCA Endowment				
Pooled Trust Fund	\$ -	\$ 3,322,177	\$ -	\$ 3,322,177
Money markets	2,517,326	-	-	2,517,326
Mutual funds – equity:				
Balanced funds	144,781	-	-	144,781
Stock funds	176,776	-	-	176,776
Mutual funds – fixed income	33,446	-	-	33,446
Total investments	\$ 2,872,329	\$ 3,322,177	\$ -	\$ 6,194,506

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

5. Investments and Fair Market Value Measurements (continued)

The following information pertains to those alternative investments recorded at NAV as of December 31, 2016:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
ELCA Endowment Pooled Trust Fund	\$ 3,322,177	n/a	10 days

There were no unfunded commitments for the above fund as of December 31, 2016.

Investment income consists of the following for the year ended December 31, 2016:

Interest and dividends	\$ 161,756
Net realized and unrealized gain	<u>115,798</u>
Total investment income	<u>\$ 277,554</u>

6. Property and Equipment

Property and equipment consists of the following at December 31, 2016:

Leasehold improvements	\$ 1,533,316
Furniture and equipment	198,321
Capitalized software	<u>27,010</u>
Total property and equipment	1,758,647
Less: accumulated depreciation and amortization	<u>(1,040,103)</u>
Property and equipment, net	<u>\$ 718,544</u>

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

7. Temporarily Restricted Net Assets

At December 31, 2016, temporarily restricted net assets were restricted for the following purposes:

Time restricted	\$ 3,467,674
Public education and other programs	526,934
Unappropriated investment earnings on permanently restricted endowment	<u>47,824</u>
Total temporarily restricted net assets	<u>\$ 4,042,432</u>

8. Endowment

The Institute's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. Under accounting principles generally accepted in the United States of America, 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.

Interpretation of Relevant Law

The Board of Directors of the Institute 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 Institute 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 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 Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

8. Endowment (continued)

Interpretation of Relevant Law (continued)

In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of the Institute and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of the Institute; and (7) investment policies of the Institute.

Return Objectives, Risk Parameters, and Strategies

The Institute follows a conservative investment policy for endowment assets that attempts to preserve fully the original corpus and optimize returns. Should significant, new donations be made to the endowment assets, the Institute's investment policy would permit a strategy of long term growth of the endowment assets. Under such a policy, the endowment assets would be invested in a manner that is intended to produce results exceeding major investment benchmarks while assuming a moderate level of risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating 5% of the trailing four-year average of the endowed funds for use in operations each year. All earnings of the investments are reinvested within the both the Board-designated and donor-restricted endowment assets. The Institute intends for the Board-designated endowment to be used only upon approval of 2/3 of the members of the Board of Directors with fiduciary authority.

Composition of Funds

Endowment net asset composition was as follows at December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 3,396,250	\$ -	\$ -	\$ 3,396,250
Donor-restricted endowment funds	-	47,824	367,486	415,310
Total funds	\$ 3,396,250	\$ 47,824	\$ 367,486	\$ 3,811,560

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

8. Endowment (continued)

Changes in Endowment Net Assets

For the year ended December 31, 2016, changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	\$ 3,400,994	\$ 111,683	\$ 367,486	\$ 3,880,163
Investment income:				
Interest and dividends	114,300	137,159	-	251,459
Realized and unrealized gain (loss)	173,380	(48,446)	-	124,934
Total investment income	287,680	88,713	-	376,393
Appropriation of assets for expenditure	(292,424)	(152,572)	-	(444,996)
Endowment net assets, December 31, 2016	<u>\$ 3,396,250</u>	<u>\$ 47,824</u>	<u>\$ 367,486</u>	<u>\$ 3,811,560</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by the Institute in unrestricted net assets. There were no fund deficiencies for the year ended December 31, 2016.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

9. Retirement Plan

The Institute is part of a defined-contribution retirement plan maintained by Bread 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% of the Social Security wage base (the 2016 wage base was \$118,500). For the year ended December 31, 2016, plan contributions totaled \$329,975.

10. Commitment

Operating Lease

The Institute leases office facilities in Washington, DC, under a noncancelable office lease, which expires on September 30, 2021. This lease agreement includes certain additional storage space in the building and contains a provision for an increase in rent of 2.5% per annum of the base rent on the anniversary date of the lease for the first five years. At the beginning of the sixth lease year, there was a one-time increase of approximately 6% of the base rent, which will revert back to the original 2.5% per annum in lease year seven through the end of the lease. All terms, covenants, and conditions of the office space lease apply with respect to the storage space, except operating charges and real estate taxes.

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. In accordance with accounting principles generally accepted in the United States of America, 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 on the accompanying statement of financial position.

Rent and utilities expense under this lease, net of amounts reimbursed by Bread, totaled \$360,848 for the year ended December 31, 2016, and is recorded as facilities expense in the accompanying statement of functional expenses.

Bread for the World Institute, Inc.

Notes to Financial Statements
December 31, 2016

10. Commitment (continued)

Operating Lease (continued)

As of December 31, 2016, the future minimum rental payments required under the office lease, less amounts reimbursed by Bread (see Note 11), are as follows for the years ending December 31:

	<u>Total</u>	<u>Paid by Bread</u>	<u>Net</u>
2017	\$ 697,414	\$ (306,862)	\$ 390,552
2018	714,916	(314,563)	400,353
2019	732,639	(322,361)	410,278
2020	751,037	(330,456)	420,581
2021	573,885	(252,509)	321,376
Total	<u>\$ 3,469,891</u>	<u>\$ (1,526,751)</u>	<u>\$ 1,943,140</u>

11. Related Parties

The Institute shares its premises and some administrative and program personnel with Bread and the Alliance to End Hunger (“the Alliance”), organizations that are exempt from income tax under Internal Revenue Code (IRC) Sections 501(c)(4) and 501(c)(3), respectively. Costs are allocated between the entities based on actual expenses incurred and an overhead allocation, as described in the shared services agreements between the organizations. As of December 31, 2016, the Institute had an amount due from Bread totaling \$3,505 and an amount due from the Alliance amounting to \$14,842 related to these agreements. These amounts are included in the accompanying statement of financial position.

12. Allocation of Joint Costs

The Institute achieves some of its programmatic goals by direct mail, informational materials, and similar campaigns that include requests for donations. The cost of conducting those campaigns was allocated as follows for the year ended December 31, 2016:

Public education	\$ 411,631
Fundraising	<u>128,854</u>
Total joint costs	<u>\$ 540,485</u>

Bread for the World Institute, Inc.

Notes to Financial Statements
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13. Income Taxes

The Institute is exempt from the payment of income taxes on its exempt activities under IRC Section 501(c)(3). At December 31, 2016, no tax provision was made, as the Institute had no unrelated business income.

Management has evaluated the Institute's tax positions and concluded that there are no significant uncertain tax positions that qualify for either recognition or disclosure in the accompanying financial statements.