

Bread for the World, Inc. and Affiliate

Consolidated Financial Statements
and Independent Auditors' Report

December 31, 2017

(With Summarized Financial Information for December 31, 2016)

Bread for the World, Inc. and Affiliate

Consolidated Financial Statements

December 31, 2017

(With Summarized Financial Information for December 31, 2016)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bread for the World, Inc. and Affiliate (collectively, "the Organization"), which comprise the consolidated statement of financial position as of December 31, 2017; the related consolidated statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Auditor's Responsibility (continued)

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, 2017, 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 Organization's December 31, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 15, 2017. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2016, 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 supplementary information included on pages 19-20 is presented for purposes of additional analysis and is 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 information has been subjected to the auditing procedures applied in the audit 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 accounting principles 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.



Vienna, Virginia
April 20, 2018

Bread for the World, Inc. and Affiliate

Consolidated Statement of Financial Position

December 31, 2017

(With Summarized Financial Information for December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,530,020	\$ 7,176,958
Pledges receivable	1,544,372	1,857,154
Due from the Alliance	159,465	126,343
Prepaid expenses	<u>295,256</u>	<u>237,358</u>
Total current assets	6,529,113	9,397,813
Deposits	237,515	237,515
Pledges receivable, long-term, net	701,742	1,946,728
Investments	10,283,920	8,847,438
Property and equipment, net	<u>578,628</u>	<u>718,544</u>
Total assets	<u>\$ 18,330,918</u>	<u>\$ 21,148,038</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 934,313</u>	<u>\$ 1,203,529</u>
Total current liabilities	934,313	1,203,529
Deferred rent and lease incentive liability	<u>903,928</u>	<u>1,102,688</u>
Total liabilities	<u>1,838,241</u>	<u>2,306,217</u>
Net Assets		
Unrestricted:		
Undesignated	8,937,690	9,993,775
Board-designated (Founder's Fund)	<u>4,105,165</u>	<u>3,779,744</u>
Total unrestricted	13,042,855	13,773,519
Temporarily restricted	2,872,015	4,490,736
Permanently restricted (Endowment Fund)	<u>577,807</u>	<u>577,566</u>
Total net assets	<u>16,492,677</u>	<u>18,841,821</u>
Total liabilities and net assets	<u>\$ 18,330,918</u>	<u>\$ 21,148,038</u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Activities
For the Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Operating Revenue and Support					
Contributions and membership	\$ 8,055,445	\$ 152,000	\$ -	\$ 8,207,445	\$ 8,060,794
Foundation grants	513,662	505,000	-	1,018,662	1,175,000
Endowments and bequests	560,957	67,000	241	628,198	539,289
Conferences and events	3,075	-	-	3,075	46,911
Other income	53,717	-	-	53,717	75,548
Sales of materials	47,075	-	-	47,075	41,274
Net assets released from restrictions:					
Satisfaction of program restrictions	583,969	(583,969)	-	-	-
Satisfaction of time restrictions	1,847,124	(1,847,124)	-	-	-
Total operating revenue and support	<u>11,665,024</u>	<u>(1,707,093)</u>	<u>241</u>	<u>9,958,172</u>	<u>9,938,816</u>
Expenses					
Program services:					
Public education	6,322,221	-	-	6,322,221	6,506,801
Outreach and advocacy	2,689,326	-	-	2,689,326	2,871,494
Public policy	2,181,521	-	-	2,181,521	2,491,204
Total program services	<u>11,193,068</u>	<u>-</u>	<u>-</u>	<u>11,193,068</u>	<u>11,869,499</u>
Supporting services:					
Fundraising	910,444	-	-	910,444	1,027,448
Management and general	882,623	-	-	882,623	1,083,676
Total supporting services	<u>1,793,067</u>	<u>-</u>	<u>-</u>	<u>1,793,067</u>	<u>2,111,124</u>
Total expenses	<u>12,986,135</u>	<u>-</u>	<u>-</u>	<u>12,986,135</u>	<u>13,980,623</u>
Change in Net Assets from Operations	(1,321,111)	(1,707,093)	241	(3,027,963)	(4,041,807)
Non-Operating Activities					
Investment income	590,447	88,372	-	678,819	324,897
Change in Net Assets	(730,664)	(1,618,721)	241	(2,349,144)	(3,716,910)
Net Assets, beginning of year	<u>13,773,519</u>	<u>4,490,736</u>	<u>577,566</u>	<u>18,841,821</u>	<u>22,558,731</u>
Net Assets, end of year	<u>\$ 13,042,855</u>	<u>\$ 2,872,015</u>	<u>\$ 577,807</u>	<u>\$ 16,492,677</u>	<u>\$ 18,841,821</u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	Program Services			Supporting Services		2017 Total	2016 Total	
	Public Education	Outreach and Advocacy	Public Policy	Total Program Services	Fundraising			Management and General
Salaries	\$ 2,219,444	\$ 1,450,934	\$ 1,087,097	\$ 4,757,475	\$ 145,244	\$ 962,415	\$ 5,865,134	\$ 5,640,665
Employee benefits	556,799	367,499	301,825	1,226,123	53,430	504,208	1,783,761	1,784,931
Professional fees and contracts	582,596	4,205	101,662	688,463	5,585	625,040	1,319,088	1,837,241
Printing, production, and design	611,808	5,094	9,038	625,940	218,000	14,513	858,453	981,426
Facilities	21	-	43	64	-	885,387	885,451	895,308
Office supplies, postage, and telephone	369,897	4,775	697	375,369	139,868	158,502	673,739	835,619
Travel	140,068	165,575	57,678	363,321	8,438	57,901	429,660	566,722
Meetings and conferences	11,373	23,073	63,050	97,496	33,090	45,572	176,158	257,850
Membership services	258,048	8,150	1,253	267,451	67,328	-	334,779	512,300
Other expenses	205,581	70,914	52,779	329,274	33,494	-	362,768	334,174
Depreciation and amortization	-	-	-	-	-	164,922	164,922	180,206
Computer services and supplies	1,359	2,313	122	3,794	26	83,402	87,222	109,181
Grants	-	-	45,000	45,000	-	-	45,000	45,000
Overhead allocation	1,365,227	586,794	461,277	2,413,298	205,941	(2,619,239)	-	-
Total Expenses	\$ 6,322,221	\$ 2,689,326	\$ 2,181,521	\$ 11,193,068	\$ 910,444	\$ 882,623	\$ 12,986,135	\$ 13,980,623

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (2,349,144)	\$ (3,716,910)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	164,922	180,206
Realized and unrealized gain on investments	(458,528)	(124,892)
Change in discount – pledges receivable	(38,772)	(81,997)
Contributions to permanently restricted net assets	(241)	(266)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	1,596,540	3,968,323
Due from the Alliance	(33,122)	(6,701)
Prepaid expenses	(57,898)	(67,981)
Decrease in:		
Accounts payable and accrued expenses	(269,216)	(275,626)
Deferred rent and lease incentive liability	(198,760)	(166,772)
Net cash used in operating activities	<u>(1,644,219)</u>	<u>(292,616)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	94,019	1,221,520
Purchases of investments	(1,071,973)	(430,660)
Purchases of property and equipment	(25,006)	(21,672)
Decrease in deposits	-	400
Net cash (used in) provided by investing activities	<u>(1,002,960)</u>	<u>769,588</u>
Cash Flows from Financing Activity		
Contributions to permanently restricted net assets	<u>241</u>	<u>266</u>
Net cash provided by financing activity	<u>241</u>	<u>266</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,646,938)	477,238
Cash and Cash Equivalents, beginning of year	<u>7,176,958</u>	<u>6,699,720</u>
Cash and Cash Equivalents, end of year	<u>\$ 4,530,020</u>	<u>\$ 7,176,958</u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

1. Nature of Operations

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.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the account balances of Bread and the Institute (collectively, “the Organization”). Bread and the Institute have separate and distinct governance structures that share the same volunteers who serve as members on both Boards of Directors. Bread and the Institute also share common facilities and personnel and 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. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting and Presentation

The Organization’s consolidated 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 Organization’s general operations. Unrestricted net assets also include \$4,105,165 of amounts designated by the Board of Directors as a quasi-endowment.
- *Temporarily restricted net assets* represent funds subject to donor imposed restrictions that are met either by actions of the Organization or through the passage of time.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

- *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 Organization 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.

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 Organization 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, 2017, 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 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 loss or income and are included in the accompanying consolidated statement of activities.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

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 consolidated statement of activities.

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 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. Contributions received are considered to be available for use unless specifically restricted by the grantor or donor to one of the Organization'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 consolidated 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 Organization's various programs and activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

Measure of Operations

The Organization 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.

Use of 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 and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Comparative Information

The 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 2016 consolidated financial statements, from which the summarized information was derived.

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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 20, 2018, the date the consolidated financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and cash equivalents, investments, and pledges receivable. The Organization 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 Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Organization 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, 2017:

Due in less than one year	\$ 1,544,372
Due in one to five years	<u>730,000</u>
Total pledges receivable	2,274,372
Less: present value discount (at 1.98%)	<u>(28,258)</u>
Pledges receivable, net	<u>\$ 2,246,114</u>

5. Investments and Fair Market Value Measurements

The Organization follows FASB Accounting Standards Codification 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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

5. Investments and Fair Market Value Measurements (continued)

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.

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 Organization 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 Organization'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, 2017, 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 Organization's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Alternative investments:				
ELCA Endowment				
Pooled Trust Fund	\$ -	\$ 3,793,925	\$ -	\$ 3,793,925
Money markets	5,083,498	-	-	5,083,498
Mutual funds – equity:				
Balanced funds	164,875	-	-	164,875
Stock funds	173,639	-	-	173,639
Mutual funds – fixed income	1,067,983	-	-	1,067,983
Total investments	\$ 6,489,995	\$ 3,793,925	\$ -	\$ 10,283,920

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

5. Investments and Fair Market Value Measurements (continued)

The following information pertains to those alternative investments recorded at NAV as of December 31, 2017:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
ELCA Endowment Pooled Trust Fund	\$ 3,793,925	n/a	10 days

There were no unfunded commitments for the above fund as of December 31, 2017.

Investment income consists of the following for the year ended December 31, 2017:

Interest and dividends	\$ 220,291
Net realized and unrealized gain	<u>458,528</u>
Total investment income	<u><u>\$ 678,819</u></u>

6. Property and Equipment

Property and equipment consists of the following at December 31, 2017:

Leasehold improvements	\$ 1,533,316
Furniture and equipment	223,327
Software	<u>27,010</u>
Total property and equipment	1,783,653
Less: accumulated depreciation and amortization	<u>(1,205,025)</u>
Property and equipment, net	<u><u>\$ 578,628</u></u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

7. Temporarily Restricted Net Assets

At December 31, 2017, temporarily restricted net assets were available for the following purposes:

Time restricted	\$ 2,274,372
Public education and other programs	453,498
Unappropriated investment earnings on permanently restricted endowment	<u>144,145</u>
Total temporarily restricted net assets	<u><u>\$ 2,872,015</u></u>

8. Endowment

Bread and the Institute's endowment includes both donor-restricted endowment funds and funds designated by the Boards 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 Boards 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 Boards of Directors of Bread and the Institute have 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, Bread and the Institute classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 Bread and the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017

8. Endowment (continued)

Interpretation of Relevant Law (continued)

In accordance with UPMIFA, Bread and the Institute consider the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of Bread and 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 Bread and the Institute; and (7) investment policies of both Bread and the Institute.

Return Objectives, Risk Parameters, and Strategies

Bread and the Institute follow 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, both Bread and 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

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

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 both Bread and the Institute in unrestricted net assets. There were no fund deficiencies for the year ended December 31, 2017.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

8. Endowment (continued)

Composition of Funds

Endowment net asset composition was as follows at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 4,105,165	\$ -	\$ -	\$ 4,105,165
Donor-restricted endowment funds	-	144,145	577,807	721,952
Total funds	<u>\$ 4,105,165</u>	<u>\$ 144,145</u>	<u>\$ 577,807</u>	<u>\$ 4,827,117</u>

Changes in Endowment Net Assets

For the year ended December 31, 2017, changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, December 31, 2016	\$ 3,779,744	\$ 87,357	\$ 577,566	\$ 4,444,667
Investment income:				
Interest and dividends	140,324	24,684	-	165,008
Realized and unrealized gain	362,023	63,688	-	425,711
Total investment income	<u>502,347</u>	<u>88,372</u>	<u>-</u>	<u>590,719</u>
Contributions	2,600	-	241	2,841
Appropriation of assets for expenditure	<u>(179,526)</u>	<u>(31,584)</u>	<u>-</u>	<u>(211,110)</u>
Endowment funds, December 31, 2017	<u>\$ 4,105,165</u>	<u>\$ 144,145</u>	<u>\$ 577,807</u>	<u>\$ 4,827,117</u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

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% of the Social Security wage base (the 2017 wage base was \$127,200). For the year ended December 31, 2017, the Organization recorded contributions to the plan totaling \$482,900.

10. Commitments

Operating Leases

The Organization 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 on the anniversary date of the lease for the first five years of the base rent. 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 lease. The difference between this expense and the required lease payments is reflected as deferred rent on the accompanying consolidated statement of financial position.

As of December 31, 2017, the future minimum rental payments required under the office lease are as follows for the years ending December 31:

2018	\$	714,916
2019		732,639
2020		751,037
2021		<u>573,885</u>
Total future minimum payments	\$	<u><u>2,772,477</u></u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

10. Commitments (continued)

Operating Leases (continued)

The Organization also leases office equipment under the terms of various operating leases. Rent and utilities expense totaled \$885,451 for the year ended December 31, 2017, and is recorded as facilities expense in the accompanying consolidated statement of functional expenses.

11. Related Party

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 Internal Revenue Code (IRC) Section 501(c)(3). 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, 2017, the Organization has a receivable from the Alliance in the amount of \$159,465 under this agreement. These amounts are included in the accompanying consolidated statement of financial position.

12. Allocation of Joint Costs

The Organization 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, 2017:

Public education	\$ 1,235,247
Fundraising	<u>440,952</u>
Total joint costs	<u>\$ 1,676,199</u>

13. Income Taxes

Bread is exempt from the payment of income taxes on its exempt activities under IRC Section 501(c)(4). The Institute is exempt from the payment of income taxes on its exempt activities under IRC Section 501(c)(3). At December 31, 2017, no tax provision was made as the Organization had no significant unrelated business income.

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

SUPPLEMENTARY INFORMATION

Bread for the World, Inc. and Affiliate

Consolidating Schedule of Financial Position
December 31, 2017

	<u>Bread</u>	<u>The Institute</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,842,266	\$ 1,687,754	\$ -	\$ 4,530,020
Pledges receivable	132,226	1,412,146	-	1,544,372
Due from the Institute	684,694	-	(684,694)	-
Due from the Alliance	121,019	38,446	-	159,465
Prepaid expenses	158,843	136,413	-	295,256
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	3,939,048	3,274,759	(684,694)	6,529,113
Deposits	-	237,515	-	237,515
Pledges receivable, long-term, net	-	701,742	-	701,742
Investments	2,723,361	7,560,559	-	10,283,920
Property and equipment, net	-	578,628	-	578,628
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 6,662,409</u>	<u>\$ 12,353,203</u>	<u>\$ (684,694)</u>	<u>\$ 18,330,918</u>
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	\$ 908,972	\$ 25,341	\$ -	\$ 934,313
Due to Bread	-	684,694	(684,694)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	908,972	710,035	(684,694)	934,313
Deferred rent and lease incentive liability	210,281	693,647	-	903,928
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,119,253</u>	<u>1,403,682</u>	<u>(684,694)</u>	<u>1,838,241</u>
Net Assets				
Unrestricted:				
Undesignated	4,716,275	4,221,415	-	8,937,690
Board-designated (Founder's Fund)	417,937	3,687,228	-	4,105,165
	<hr/>	<hr/>	<hr/>	<hr/>
Total unrestricted	5,134,212	7,908,643	-	13,042,855
Temporarily restricted	198,623	2,673,392	-	2,872,015
Permanently restricted (Endowment Fund)	210,321	367,486	-	577,807
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	<u>5,543,156</u>	<u>10,949,521</u>	<u>-</u>	<u>16,492,677</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 6,662,409</u>	<u>\$ 12,353,203</u>	<u>\$ (684,694)</u>	<u>\$ 18,330,918</u>

Bread for the World, Inc. and Affiliate

Consolidating Schedule of Activities
For the Year Ended December 31, 2017

	Bread	The Institute	Eliminations	Total
Unrestricted Revenue and Support				
Contributions and membership	\$ 4,966,221	\$ 3,089,224	\$ -	\$ 8,055,445
Foundation grants	-	513,662	-	513,662
Endowments and bequests	218,119	342,838	-	560,957
Conferences and events	-	3,075	-	3,075
Other income	48,109	5,608	-	53,717
Sales of materials	47,075	-	-	47,075
Net assets released from restrictions:				
Satisfaction of program restrictions	25,000	558,969	-	583,969
Satisfaction of time restrictions	331,875	1,515,249	-	1,847,124
Total unrestricted revenue and support	5,636,399	6,028,625	-	11,665,024
Expenses				
Program services:				
Public education	2,298,578	4,023,643	-	6,322,221
Outreach and advocacy	1,145,426	1,543,900	-	2,689,326
Public policy	591,084	1,590,437	-	2,181,521
Total program services	4,035,088	7,157,980	-	11,193,068
Supporting services:				
Fundraising	622,233	288,211	-	910,444
Management and general	536,229	346,394	-	882,623
Total supporting services	1,158,462	634,605	-	1,793,067
Total expenses	5,193,550	7,792,585	-	12,986,135
Change in unrestricted net assets	442,849	(1,763,960)	-	(1,321,111)
Temporarily Restricted Net Assets				
Contributions and membership	2,000	150,000	-	152,000
Foundation grants	25,000	480,000	-	505,000
Endowments and bequests	47,000	20,000	-	67,000
Released from restrictions:				
Satisfaction of program restrictions	(25,000)	(558,969)	-	(583,969)
Satisfaction of time restrictions	(331,875)	(1,515,249)	-	(1,847,124)
Change in temporarily restricted net assets	(282,875)	(1,424,218)	-	(1,707,093)
Permanently Restricted Net Assets				
Endowments and bequests	241	-	-	241
Change in Net Assets from Operations	160,215	(3,188,178)	-	(3,027,963)
Non-Operating Activities				
Investment income – unrestricted	66,274	524,173	-	590,447
Investment income – temporarily restricted	33,194	55,178	-	88,372
Total non-operating activities	99,468	579,351	-	678,819
Change in Net Assets	259,683	(2,608,827)	-	(2,349,144)
Net Assets, beginning of year	5,283,473	13,558,348	-	18,841,821
Net Assets, end of year	\$ 5,543,156	\$ 10,949,521	\$ -	\$ 16,492,677