

Bread for the World, Inc. and Affiliate

Consolidated Financial Statements
and Independent Auditors' Report

December 31, 2018

(With Summarized Financial Information for December 31, 2017)

Bread for the World, Inc. and Affiliate

Consolidated Financial Statements

December 31, 2018

(With Summarized Financial Information for December 31, 2017)

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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, 2018; 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, 2018, 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, 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 20, 2018. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2017, 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 21-22 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 25, 2019

Bread for the World, Inc. and Affiliate

Consolidated Statement of Financial Position

December 31, 2018

(With Summarized Financial Information for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,171,933	\$ 4,530,020
Pledges receivable	2,293,137	1,544,372
Due from the Alliance	176,221	159,465
Investments	9,784,634	10,283,920
Prepaid expenses	284,873	295,256
	<hr/>	<hr/>
Total current assets	17,710,798	16,813,033
Deposits	237,515	237,515
Pledges receivable, long-term, net	568,481	701,742
Property and equipment, net	424,653	578,628
	<hr/>	<hr/>
Total assets	<u>\$ 18,941,447</u>	<u>\$ 18,330,918</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,087,945	\$ 934,313
	<hr/>	<hr/>
Total current liabilities	1,087,945	934,313
Deferred rent and lease incentive liability	687,665	903,928
	<hr/>	<hr/>
Total liabilities	<u>1,775,610</u>	<u>1,838,241</u>
Net Assets		
Without donor restrictions:		
Undesignated	9,044,778	8,937,690
Board-designated (Founder's Fund)	3,670,509	4,105,165
	<hr/>	<hr/>
Total without donor restrictions	12,715,287	13,042,855
With donor restrictions	4,450,550	3,449,822
	<hr/>	<hr/>
Total net assets	<u>17,165,837</u>	<u>16,492,677</u>
Total liabilities and net assets	<u>\$ 18,941,447</u>	<u>\$ 18,330,918</u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Activities
For the Year Ended December 31, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
Operating Revenue and Support				
Contributions and membership	\$ 6,474,558	\$ 2,432,732	\$ 8,907,290	\$ 8,207,445
Foundation grants	1,836,239	1,482,200	3,318,439	1,018,662
Endowments and bequests	831,954	175,678	1,007,632	628,198
Conferences and events	-	-	-	3,075
Other income	46,897	-	46,897	53,717
Sales of materials	47,593	-	47,593	47,075
Net assets released from restrictions:				
Satisfaction of program restrictions	806,986	(806,986)	-	-
Satisfaction of time restrictions	2,236,646	(2,236,646)	-	-
Total operating revenue and support	<u>12,280,873</u>	<u>1,046,978</u>	<u>13,327,851</u>	<u>9,958,172</u>
Expenses				
Program services:				
Public education	5,620,580	-	5,620,580	6,322,221
Outreach and advocacy	2,585,730	-	2,585,730	2,689,326
Public policy	2,221,777	-	2,221,777	2,181,521
Total program services	<u>10,428,087</u>	<u>-</u>	<u>10,428,087</u>	<u>11,193,068</u>
Supporting services:				
Fundraising	1,129,365	-	1,129,365	910,444
Management and general	808,384	-	808,384	882,623
Total supporting services	<u>1,937,749</u>	<u>-</u>	<u>1,937,749</u>	<u>1,793,067</u>
Total expenses	<u>12,365,836</u>	<u>-</u>	<u>12,365,836</u>	<u>12,986,135</u>
Change in Net Assets from Operations	(84,963)	1,046,978	962,015	(3,027,963)
Non-Operating Activities				
Investment (loss) income	(242,605)	(46,250)	(288,855)	678,819
Change in Net Assets	(327,568)	1,000,728	673,160	(2,349,144)
Net Assets, beginning of year	<u>13,042,855</u>	<u>3,449,822</u>	<u>16,492,677</u>	<u>18,841,821</u>
Net Assets, end of year	<u>\$ 12,715,287</u>	<u>\$ 4,450,550</u>	<u>\$ 17,165,837</u>	<u>\$ 16,492,677</u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	Program Services			Total Program Services	Supporting Services		2018 Total	2017 Total
	Public Education	Outreach and Advocacy	Public Policy		Fundraising	Management and General		
Salaries	\$ 1,865,956	\$ 1,285,810	\$ 1,045,999	\$ 4,197,765	\$ 180,230	\$ 857,027	\$ 5,235,022	\$ 5,865,134
Employee benefits	533,020	382,290	298,976	1,214,286	88,829	300,984	1,604,099	1,783,761
Professional fees and contracts	556,717	12,100	256,499	825,316	14,724	540,338	1,380,378	1,319,088
Printing, production, and design	579,680	7,399	1,259	588,338	247,506	7,837	843,681	858,453
Facilities	184	106	100	390	-	1,017,122	1,017,512	885,451
Office supplies, postage, and telephone	356,614	4,882	1,478	362,974	188,753	135,011	686,738	673,739
Travel	115,793	221,742	44,400	381,935	8,287	49,942	440,164	429,660
Meetings and conferences	20,740	48,693	69,326	138,759	64,277	31,926	234,962	176,158
Membership services	210,611	9,500	3,900	224,011	82,024	-	306,035	334,779
Other expenses	219,544	85,228	58,234	363,006	13,235	-	376,241	362,768
Depreciation and amortization	-	-	-	-	-	153,975	153,975	164,922
Computer services and supplies	257	6,351	2,188	8,796	4	47,001	55,801	87,222
Grants	30,228	1,000	-	31,228	-	-	31,228	45,000
Overhead allocation	1,131,236	520,629	439,418	2,091,283	241,496	(2,332,779)	-	-
Total Expenses	\$ 5,620,580	\$ 2,585,730	\$ 2,221,777	\$ 10,428,087	\$ 1,129,365	\$ 808,384	\$ 12,365,836	\$ 12,986,135

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 673,160	\$ (2,349,144)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	153,975	164,922
Realized and unrealized loss (gain) on investments	503,799	(458,528)
Change in discount – pledges receivable	13,261	(38,772)
Contributions to donor restricted endowments	(100,267)	(241)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	(628,765)	1,596,540
Due from the Alliance	(16,756)	(33,122)
Prepaid expenses	10,383	(57,898)
Increase (decrease) in:		
Accounts payable and accrued expenses	153,632	(269,216)
Deferred rent and lease incentive liability	(216,263)	(198,760)
Net cash provided by (used in) operating activities	<u>546,159</u>	<u>(1,644,219)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	89,989	94,019
Purchases of investments	(94,502)	(1,071,973)
Purchases of property and equipment	<u>-</u>	<u>(25,006)</u>
Net cash used in investing activities	<u>(4,513)</u>	<u>(1,002,960)</u>
Cash Flows from Financing Activity		
Contributions to donor restricted endowments	<u>100,267</u>	<u>241</u>
Net cash provided by financing activity	<u>100,267</u>	<u>241</u>
Net Increase (Decrease) in Cash and Cash Equivalents	641,913	(2,646,938)
Cash and Cash Equivalents, beginning of year	<u>4,530,020</u>	<u>7,176,958</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 5,171,933</u></u>	<u><u>\$ 4,530,020</u></u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

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:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for the Board-designated endowment.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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, 2018, 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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

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.

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 restricted support that increase those net asset classes.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period as received.

All other revenues are recognized when earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$1,656,024 during the year ended December 31, 2018.

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 investment income or loss.

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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

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 2017 consolidated financial statements, from which the summarized information was derived.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued 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.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 25, 2019, the date the consolidated financial statements were available to be issued.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

3. Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Organization's liquid asset needs and adjusts the cash balances as necessary. Amounts in excess of operating liquidity needs are invested in corporate and government bonds, and mutual funds.

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal Board designations. Amounts not available include Board-designated funds. In the event the need arises to utilize the Board-designated funds for liquidity purposes, the reserves could be drawn upon through Board resolution. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$	5,171,933
Pledges receivable due in less than one year		2,293,137
Due from the Alliance		176,221
Investments		9,784,634
Less: Board-designated funds		(3,670,509)
Less: restricted by donors with purpose and time restrictions		<u>(4,450,550)</u>
Total available for general expenditures	\$	<u>9,304,866</u>

4. 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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

5. Pledges Receivable

Pledges receivable are due as follows at December 31, 2018:

Due in less than one year	\$ 2,293,137
Due in one to five years	<u>610,000</u>
Total pledges receivable	2,903,137
Less: present value discount (at 2.46%)	<u>(41,519)</u>
Pledges receivable, net	<u>\$ 2,861,618</u>

6. 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.

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, 2018, funds valued at NAV are classified within Level 2, if the notice period for redemption is 90 days or less.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

6. Investments and Fair Market Value Measurements (continued)

The following table presents the Organization's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Alternative investments:				
ELCA Endowment				
Pooled Trust Fund	\$ -	\$ 3,304,351	\$ -	\$ 3,304,351
Money markets	5,130,231	-	-	5,130,231
Mutual funds – equity:				
Balanced funds	170,003	-	-	170,003
Stock funds	133,753	-	-	133,753
Mutual funds – fixed income	1,046,296	-	-	1,046,296
Total investments	\$ 6,480,283	\$ 3,304,351	\$ -	\$ 9,784,634

The following information pertains to those alternative investments recorded at NAV as of December 31, 2018:

	Fair Value	Redemption Frequency	Redemption Notice
ELCA Endowment			
Pooled Trust Fund	\$ 3,304,351	n/a	10 days

There were no unfunded commitments for the above fund as of December 31, 2018.

Investment loss consists of the following for the year ended December 31, 2018:

Interest and dividends	\$ 228,219
Net realized and unrealized loss	(503,799)
Less: investment fees	<u>(13,275)</u>
Total investment loss	<u>\$ (288,855)</u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

7. Property and Equipment

Property and equipment consists of the following at December 31, 2018:

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>(1,359,000)</u>
Property and equipment, net	<u><u>\$ 424,653</u></u>

8. Net Assets With Donor Restrictions

At December 31, 2018, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
Public education and other programs	\$ 1,643,184
Subject to the passage of time:	
Time restricted	2,061,618
Endowments:	
Subject to appropriation and expenditure when specified event occurs	535,160
Subject to endowment spending policy	<u>210,588</u>
Total net assets with donor restrictions	<u><u>\$ 4,450,550</u></u>

9. 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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

9. Endowment (continued)

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 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 restricted net assets is classified as 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.

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. All earnings of the investments are reinvested within both the Board-designated and donor-restricted endowment funds.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

9. Endowment (continued)

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. 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, 2018.

Composition of Funds

Endowment net asset composition was as follows at December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 3,670,509	\$ -	\$ 3,670,509
Donor-restricted endowment funds	<u>-</u>	<u>745,748</u>	<u>745,748</u>
Total funds	<u>\$ 3,670,509</u>	<u>\$ 745,748</u>	<u>\$ 4,416,257</u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

9. Endowment (continued)

Changes in Endowment Net Assets

For the year ended December 31, 2018, changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, December 31, 2017	\$ 4,105,165	\$ 721,952	\$ 4,827,117
Investment loss:			
Interest and dividends	144,954	25,500	170,454
Realized and unrealized loss	(397,197)	(69,880)	(467,077)
Investment fees	(10,630)	(1,870)	(12,500)
Total investment loss	(262,873)	(46,250)	(309,123)
Contributions	-	100,267	100,267
Appropriation of assets for expenditure	(171,783)	(30,221)	(202,004)
Endowment funds, December 31, 2018	\$ 3,670,509	\$ 745,748	\$ 4,416,257

10. 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 2018 wage base was \$128,400). For the year ended December 31, 2018, the Organization recorded contributions to the plan totaling \$504,955.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

11. 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.

Subsequent to year end, on January 4, 2019, the Organization entered into a sublease with a separate organization for a portion of its current office space, which commenced on January 11, 2019, and shall terminate on September 29, 2021. This sublease agreement includes one month of rent abatement and a provision for an increase in rent of 5% per annum of the base rent on the anniversary date of the lease.

As of December 31, 2018, the future minimum rental payments required under the office lease are as follows for the years ending December 31:

2019	\$	732,639
2020		751,037
2021		<u>573,885</u>
Total future minimum payments	\$	<u>2,057,561</u>

The Organization also leases office equipment under the terms of various operating leases. Rent and utilities expense totaled \$1,017,512 for the year ended December 31, 2018, and is recorded as facilities expense in the accompanying consolidated statement of functional expenses.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2018

12. 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, 2018, the Organization has a receivable from the Alliance in the amount of \$176,221 under this agreement. These amounts are included in the accompanying consolidated statement of financial position.

13. 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, 2018:

Public education	\$ 1,140,110
Fundraising	<u>515,914</u>
Total joint costs	<u>\$ 1,656,024</u>

14. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

15. 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, 2018, 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, 2018

	<u>Bread</u>	<u>The Institute</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,436,409	\$ 1,735,524	\$ -	\$ 5,171,933
Pledges receivable	731,191	1,561,946	-	2,293,137
Due from the Institute	368,510	-	(368,510)	-
Due from the Alliance	130,754	45,467	-	176,221
Investments	2,665,155	7,119,479	-	9,784,634
Prepaid expenses	177,609	107,264	-	284,873
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	7,509,628	10,569,680	(368,510)	17,710,798
Deposits	-	237,515	-	237,515
Pledges receivable, long-term, net	-	568,481	-	568,481
Property and equipment, net	-	424,653	-	424,653
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 7,509,628</u>	<u>\$ 11,800,329</u>	<u>\$ (368,510)</u>	<u>\$ 18,941,447</u>
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	\$ 990,033	\$ 97,912	\$ -	\$ 1,087,945
Due to Bread	-	368,510	(368,510)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	990,033	466,422	(368,510)	1,087,945
Deferred rent and lease incentive liability	165,079	522,586	-	687,665
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,155,112</u>	<u>989,008</u>	<u>(368,510)</u>	<u>1,775,610</u>
Net Assets				
Without donor restrictions:				
Undesignated	4,987,681	4,057,097	-	9,044,778
Board-designated (Founder's Fund)	373,684	3,296,825	-	3,670,509
	<hr/>	<hr/>	<hr/>	<hr/>
Total without donor restrictions	5,361,365	7,353,922	-	12,715,287
With donor restrictions	993,151	3,457,399	-	4,450,550
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	<u>6,354,516</u>	<u>10,811,321</u>	<u>-</u>	<u>17,165,837</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 7,509,628</u>	<u>\$ 11,800,329</u>	<u>\$ (368,510)</u>	<u>\$ 18,941,447</u>

Bread for the World, Inc. and Affiliate

Consolidating Schedule of Activities
For the Year Ended December 31, 2018

	Bread	The Institute	Eliminations	Total
Revenue and Support Without Donor Restrictions				
Contributions and membership	\$ 4,591,832	\$ 1,882,726	\$ -	\$ 6,474,558
Foundation grants	-	1,836,239	-	1,836,239
Endowments and bequests	450,247	381,707	-	831,954
Other income	43,455	3,442	-	46,897
Sales of materials	47,593	-	-	47,593
Net assets released from restrictions:				
Satisfaction of program restrictions	16,891	790,095	-	806,986
Satisfaction of time restrictions	126,446	2,110,200	-	2,236,646
Total revenue and support without donor restrictions	5,276,464	7,004,409	-	12,280,873
Expenses				
Program services:				
Public education	2,324,585	3,295,995	-	5,620,580
Outreach and advocacy	949,961	1,635,769	-	2,585,730
Public policy	640,128	1,581,649	-	2,221,777
Total program services	3,914,674	6,513,413	-	10,428,087
Supporting services:				
Fundraising	728,162	401,203	-	1,129,365
Management and general	395,134	413,250	-	808,384
Total supporting services	1,123,296	814,453	-	1,937,749
Total expenses	5,037,970	7,327,866	-	12,365,836
Change in net assets without donor restrictions	238,494	(323,457)	-	(84,963)
Net Assets With Donor Restrictions				
Contributions and membership	719,250	1,713,482	-	2,432,732
Foundation grants	-	1,482,200	-	1,482,200
Endowments and bequests	25,678	150,000	-	175,678
Released from restrictions:				
Satisfaction of program restrictions	(16,891)	(790,095)	-	(806,986)
Satisfaction of time restrictions	(126,446)	(2,110,200)	-	(2,236,646)
Change in Net Assets from Operations	840,085	121,930	-	962,015
Non-Operating Activities				
Investment loss – without donor restrictions	(11,341)	(231,264)	-	(242,605)
Investment loss – with donor restrictions	(17,384)	(28,866)	-	(46,250)
Total non-operating activities	(28,725)	(260,130)	-	(288,855)
Change in Net Assets	811,360	(138,200)	-	673,160
Net Assets, beginning of year	5,543,156	10,949,521	-	16,492,677
Net Assets, end of year	\$ 6,354,516	\$ 10,811,321	\$ -	\$ 17,165,837