

Bread for the World, Inc. and Affiliate

Consolidated Financial Statements
and Independent Auditors' Report

December 31, 2020

(With Summarized Financial Information for December 31, 2019)

Bread for the World, Inc. and Affiliate

Consolidated Financial Statements

December 31, 2020

(With Summarized Financial Information for December 31, 2019)

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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, 2020; 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, 2020, 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, 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 1, 2020. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2019, 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 22-23 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 16, 2021

Bread for the World, Inc. and Affiliate

Consolidated Statement of Financial Position

December 31, 2020

(With Summarized Financial Information for December 31, 2019)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,611,519	\$ 3,973,764
Pledges receivable	1,206,908	2,177,483
Due from the Alliance	33,367	308,787
Investments	10,690,449	10,022,943
Prepaid expenses	24,994	162,849
Total current assets	18,567,237	16,645,826
Deposits	237,515	237,515
Pledges receivable, long-term, net	121,483	766,468
Property and equipment, net	111,126	496,879
Total assets	\$ 19,037,361	\$ 18,146,688
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,429,764	\$ 1,184,234
Total current liabilities	1,429,764	1,184,234
Deferred rent and lease incentive liability	661,818	453,620
Loan payable – Paycheck Protection Program	872,300	-
Total liabilities	2,963,882	1,637,854
Net Assets		
Without donor restrictions:		
Undesignated	7,036,650	6,598,637
Board-designated (Founder’s Fund)	4,824,470	4,386,628
Total without donor restrictions	11,861,120	10,985,265
With donor restrictions	4,212,359	5,523,569
Total net assets	16,073,479	16,508,834
Total liabilities and net assets	\$ 19,037,361	\$ 18,146,688

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Activities
For the Year Ended December 31, 2020
(With Summarized Financial Information for the Year Ended December 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Revenue and Support				
Contributions and membership	\$ 7,832,290	\$ 902,643	\$ 8,734,933	\$ 10,332,194
Foundation grants	249,771	1,546,686	1,796,457	637,017
Endowments and bequests	906,358	111,957	1,018,315	963,222
Conferences and events	125	-	125	4,972
Other income	239,248	-	239,248	182,332
Sales of materials	42,632	-	42,632	37,063
Net assets released from restrictions:				
Satisfaction of program restrictions	1,088,587	(1,088,587)	-	-
Satisfaction of time restrictions	2,883,559	(2,883,559)	-	-
Total operating revenue and support	13,242,570	(1,410,860)	11,831,710	12,156,800
Expenses				
Program services:				
Public education	6,033,112	-	6,033,112	6,353,067
Outreach and advocacy	2,233,414	-	2,233,414	2,657,042
Public policy	2,917,258	-	2,917,258	2,663,951
Total program services	11,183,784	-	11,183,784	11,674,060
Supporting services:				
Fundraising	1,139,640	-	1,139,640	1,290,730
Management and general	615,965	-	615,965	695,591
Total supporting services	1,755,605	-	1,755,605	1,986,321
Total expenses	12,939,389	-	12,939,389	13,660,381
Change in Net Assets from Operations	303,181	(1,410,860)	(1,107,679)	(1,503,581)
Non-Operating Activity				
Investment return, net	572,674	99,650	672,324	846,578
Change in Net Assets	875,855	(1,311,210)	(435,355)	(657,003)
Net Assets, beginning of year	10,985,265	5,523,569	16,508,834	17,165,837
Net Assets, end of year	\$ 11,861,120	\$ 4,212,359	\$ 16,073,479	\$ 16,508,834

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

	Program Services				Supporting Services			2020 Total	2019 Total
	Public Education	Outreach and Advocacy	Public Policy	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Salaries	\$ 2,525,568	\$ 1,394,560	\$ 1,508,029	\$ 5,428,157	\$ 202,557	\$ 195,977	\$ 398,534	\$ 5,826,691	\$ 5,609,390
Employee benefits	794,764	444,025	447,116	1,685,905	107,399	71,830	179,229	1,865,134	1,826,637
Professional fees and contracts	1,013,912	53,225	531,576	1,598,713	78,394	71,685	150,079	1,748,792	1,989,036
Facilities	315,139	119,917	160,434	595,490	66,009	178,097	244,106	839,596	1,079,805
Printing, production, and design	31,929	9,405	7,776	49,110	3,824	8,962	12,786	61,896	67,979
Travel	19,686	48,489	20,868	89,043	2,846	4,165	7,011	96,054	544,812
Meetings and conferences	2,327	5,333	32,725	40,385	14,572	59	14,631	55,016	210,415
Office supplies, postage, and telephone	96,464	24,859	40,500	161,823	14,463	32,284	46,747	208,570	198,110
Depreciation and amortization	86,384	27,530	30,767	144,681	7,462	41,654	49,116	193,797	201,349
Membership services	951,582	-	-	951,582	533,131	-	533,131	1,484,713	1,461,895
Other expenses	171,625	93,371	124,895	389,891	105,141	-	105,141	495,032	413,955
Computer services and supplies	23,732	12,700	12,572	49,004	3,842	11,252	15,094	64,098	56,998
Total Expenses	\$ 6,033,112	\$ 2,233,414	\$ 2,917,258	\$ 11,183,784	\$ 1,139,640	\$ 615,965	\$ 1,755,605	\$ 12,939,389	\$ 13,660,381

See accompanying notes.

Bread for the World, Inc. and Affiliate

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2020
(With Summarized Financial Information for the Year Ended December 31, 2019)

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (435,355)	\$ (657,003)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	193,797	201,349
Loss on disposal of property and equipment	191,956	-
Realized and unrealized gain on investments	(434,241)	(632,243)
Change in discount – pledges receivable	(35,229)	(5,877)
Contributions to donor-restricted endowments	(111,957)	-
Change in operating assets and liabilities:		
Decrease (increase) in:		
Pledges receivable	1,650,789	(76,456)
Due from the Alliance	275,420	(132,566)
Prepaid expenses	137,855	122,024
Increase (decrease) in:		
Accounts payable and accrued expenses	245,530	96,289
Deferred rent and lease incentive liability	208,198	(234,045)
Net cash provided by (used in) operating activities	<u>1,886,763</u>	<u>(1,318,528)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	3,070,281	1,084,828
Purchases of investments	(3,303,546)	(690,894)
Purchases of property and equipment	-	(273,575)
Net cash (used in) provided by investing activities	<u>(233,265)</u>	<u>120,359</u>
Cash Flows from Financing Activities		
Proceeds from loan payable	872,300	-
Contributions to donor-restricted endowments	111,957	-
Net cash provided by financing activities	<u>984,257</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,637,755	(1,198,169)
Cash and Cash Equivalents, beginning of year	<u>3,973,764</u>	<u>5,171,933</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 6,611,519</u></u>	<u><u>\$ 3,973,764</u></u>

See accompanying notes.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

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, 2020

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 consolidated statement of financial position 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, 2020, 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, 2020

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 in net investment return 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

The Organization recognizes contributions (including foundation grants, endowments, and bequests) when cash, securities, or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Membership, which is nonrefundable, is made up entirely of a contribution element, which is recognized immediately.

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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$1,661,982 during the year ended December 31, 2020.

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 net investment return.

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 2019 consolidated financial statements, from which the summarized information was derived.

Recently Issued Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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 consolidated statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2022.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

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 16, 2021, the date the consolidated financial statements were available to be issued.

3. Liquidity and Availability

The following table reflects the Organization's financial assets as of December 31, 2020, reduced by amounts that are not available to meet general expenditures within one year of the consolidated 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 expenditures, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following at December 31, 2020:

Cash and cash equivalents	\$ 6,611,519
Pledges receivable due in less than one year	1,206,908
Due from the Alliance	33,367
Investments	10,690,449
Less: Board-designated funds	(4,824,470)
Less: net assets with donor restrictions	<u>(4,212,359)</u>
Total available for general expenditures	<u>\$ 9,505,414</u>

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 money market funds and mutual funds.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

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.

5. Pledges Receivable

Pledges receivable are due as follows at December 31, 2020:

Due in less than one year	\$ 1,206,908
Due in one to five years	<u>121,896</u>
Total pledges receivable	1,328,804
Less: present value discount (at 0.17%)	<u>(413)</u>
Pledges receivable, net	<u><u>\$ 1,328,391</u></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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

6. 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 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, 2020, 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, 2020:

	Level 1	Level 2	Level 3	Total
Alternative investments:				
ELCA Endowment				
Pooled Trust Fund	\$ -	\$ 5,851,270	\$ -	\$ 5,851,270
Money markets	4,449,734	-	-	4,449,734
Mutual funds – equity:				
Balanced funds	245,133	-	-	245,133
Stock funds	116,426	-	-	116,426
Mutual funds – fixed income	27,886	-	-	27,886
Total investments	\$ 4,839,179	\$ 5,851,270	\$ -	\$ 10,690,449

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

6. Investments and Fair Market Value Measurements (continued)

The following information pertains to those alternative investments recorded at NAV as of December 31, 2020:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
ELCA Endowment Pooled Trust Fund	\$ 5,851,270	n/a	10 days

There were no unfunded commitments for the above fund as of December 31, 2020.

Net investment return consists of the following for the year ended December 31, 2020:

Interest and dividends	\$ 247,027
Net realized and unrealized gain	434,241
Less: investment fees	<u>(8,944)</u>
Total investment return, net	<u>\$ 672,324</u>

7. Property and Equipment

Property and equipment consists of the following at December 31, 2020:

Leasehold improvements	\$ 273,656
Furniture and equipment	223,327
Software	<u>27,010</u>
Total property and equipment	523,993
Less: accumulated depreciation and amortization	<u>(412,867)</u>
Property and equipment, net	<u>\$ 111,126</u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

8. Loan Payable – Paycheck Protection Program

The Organization applied for a loan under the Paycheck Protection Program (“the PPP loan”) pursuant to Division A, Title 1 of the CARES Act, which was enacted on March 27, 2020. The PPP loan is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll through the COVID-19 coronavirus, for which the Organization qualified. The PPP loan is subject to full forgiveness upon use of the funds for payroll and other eligible costs and compliance with certain limitations on payroll and staffing reductions over a 24-week period.

The PPP loan was granted to the Organization on April 21, 2020 in the amount of \$872,300, which is recorded as loan payable in the accompanying consolidated statement of financial position. During the covered period, the Organization used all funds on qualifying expenditures and remained in compliance with limitations on payroll costs while not reducing the employee headcount. On December 21, 2020, management of the Organization submitted a forgiveness application to their lender along with documentation to corroborate the use of funds, employee headcounts, and to support the satisfaction of all other relevant compliance requirements. Subsequent to year end, the PPP loan was 100% forgiven by the lender through the SBA and the Organization was informed of this decision via a letter dated February 16, 2021. For the year ended December 31, 2021, the Organization will record \$872,300 in the accompanying consolidated financial statements as a gain on extinguishment of forgivable debt.

9. Net Assets With Donor Restrictions

At December 31, 2020, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
Public education and other programs	\$ 2,850,473
Subject to the passage of time:	
Time restricted	335,086
Endowments:	
Subject to appropriation and expenditure when specified event occurs	236,769
Subject to endowment spending policy	790,031
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Total net assets with donor restrictions	\$ 4,212,359
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Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

10. 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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets with donor restrictions 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.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

10. Endowment (continued)

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.

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.

Composition of Funds

Endowment net asset composition was as follows at December 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 4,824,470	\$ -	\$ 4,824,470
Donor-restricted endowment funds	-	1,026,800	1,026,800
Total funds	<u>\$ 4,824,470</u>	<u>\$ 1,026,800</u>	<u>\$ 5,851,270</u>

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

10. Endowment (continued)

Changes in Endowment Net Assets

For the year ended December 31, 2020, changes in endowment net assets were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment funds, December 31, 2019	\$ 4,386,628	\$ 835,293	\$ 5,221,921
Investment return, net:			
Interest and dividends	152,950	29,470	182,420
Realized and unrealized gain	360,924	70,913	431,837
Investment fees	<u>(3,849)</u>	<u>(733)</u>	<u>(4,582)</u>
Total investment return, net	<u>510,025</u>	<u>99,650</u>	<u>609,675</u>
Contributions	33,500	111,957	145,457
Appropriation of assets for expenditure	<u>(105,683)</u>	<u>(20,100)</u>	<u>(125,783)</u>
Endowment funds, December 31, 2020	<u>\$ 4,824,470</u>	<u>\$ 1,026,800</u>	<u>\$ 5,851,270</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 both Bread and the Institute in net assets without donor restrictions. There were no fund deficiencies for the year ended December 31, 2020.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

11. 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 2020 wage base was \$137,700). For the year ended December 31, 2020, the Organization recorded contributions to the plan totaling \$585,793.

12. Commitments

Operating Leases

The Organization leases office facilities in Washington, DC, under a noncancelable office lease, which was originally set to expire on September 30, 2021. On March 1, 2020, this lease was amended to reduce the size of the rentable area and to extend the lease term to February 29, 2032. The lease agreement contains a provision for an increase in rent of 2.5% per annum of the base rent on the anniversary date of the lease. The lease also contains both a lease incentive (tenant allowance) for construction and rent abatements for the first twelve months commencing March 1, 2020. As permitted by the lease agreement, \$221,325 of the tenant allowance was applied as a credit against base rent in 2021.

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 in the accompanying consolidated statement of financial position. Upon exiting its prior office facilities in March 2020, the Organization recorded a gain from the write-off of its existing deferred rent and leasehold incentive liability totaling \$88,317, which was recorded as other income in the accompanying consolidated statement of activities.

On January 4, 2019, the Institute entered into a sublease with a separate organization for a portion of its office space, which commenced on January 11, 2019, and was originally set to expire on September 29, 2021. The sublease agreement was amended and terminated on March 1, 2020.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

12. Commitments (continued)

Operating Leases (continued)

Sublease rental income was \$22,804 for the year ended December 31, 2020, and is recorded in other income in the accompanying consolidated statement of activities.

As of December 31, 2020, the future minimum rental payments required under the office lease are as follows for the years ending December 31:

2021	\$	295,469
2022		633,063
2023		648,925
2024		665,106
2025		681,706
Thereafter		<u>4,595,912</u>
Total future minimum payments	\$	<u>7,520,181</u>

The Organization also leases office equipment under the terms of various operating leases. Rent and utilities expense totaled \$839,596 for the year ended December 31, 2020, and is recorded as facilities expense in the accompanying consolidated statement of functional expenses.

13. 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, 2020, the Organization has a receivable from the Alliance in the amount of \$33,367 under this agreement. These amounts are included in the accompanying consolidated statement of financial position.

Bread for the World, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2020

14. 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, 2020:

Public education	\$ 1,076,132
Fundraising	<u>585,850</u>
Total joint costs	<u>\$ 1,661,982</u>

15. Functionalized Expenses

The consolidated 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.

16. 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, 2020, 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, 2020

	<u>Bread</u>	<u>The Institute</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,593,685	\$ 2,017,834	\$ -	\$ 6,611,519
Pledges receivable	10,025	1,196,883	-	1,206,908
Due from the Institute	1,471,673	-	(1,471,673)	-
Due from (to) the Alliance	53,835	(20,468)	-	33,367
Investments	2,926,234	7,764,215	-	10,690,449
Prepaid expenses	16,213	8,781	-	24,994
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	9,071,665	10,967,245	(1,471,673)	18,567,237
Deposits	-	237,515	-	237,515
Pledges receivable, long-term, net	-	121,483	-	121,483
Property and equipment, net	-	111,126	-	111,126
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 9,071,665	\$ 11,437,369	\$ (1,471,673)	\$ 19,037,361
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	\$ 1,164,941	\$ 264,823	\$ -	\$ 1,429,764
Due to Bread	-	1,471,673	(1,471,673)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	1,164,941	1,736,496	(1,471,673)	1,429,764
Deferred rent and lease incentive liability	235,006	426,812	-	661,818
Loan payable – Paycheck Protection Program	-	872,300	-	872,300
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,399,947	3,035,608	(1,471,673)	2,963,882
Net Assets				
Without donor restrictions:				
Undesignated	6,604,561	432,089	-	7,036,650
Board-designated (Founder’s Fund)	551,225	4,273,245	-	4,824,470
	<hr/>	<hr/>	<hr/>	<hr/>
Total without donor restrictions	7,155,786	4,705,334	-	11,861,120
With donor restrictions	515,932	3,696,427	-	4,212,359
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	7,671,718	8,401,761	-	16,073,479
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	\$ 9,071,665	\$ 11,437,369	\$ (1,471,673)	\$ 19,037,361

Bread for the World, Inc. and Affiliate

Consolidating Schedule of Activities
For the Year Ended December 31, 2020

	Bread	The Institute	Eliminations	Total
Operating Revenue and Support Without Donor Restrictions				
Contributions and membership	\$ 5,150,643	\$ 2,681,647	\$ -	\$ 7,832,290
Foundation grants	444	249,327	-	249,771
Endowments and bequests	324,872	581,486	-	906,358
Conferences and events	-	125	-	125
Other income	137,119	102,129	-	239,248
Sales of materials	42,632	-	-	42,632
Net assets released from restrictions:				
Satisfaction of program restrictions	6,547	1,082,040	-	1,088,587
Satisfaction of time restrictions	1,401,149	1,482,410	-	2,883,559
Total operating revenue and support without donor restrictions	7,063,406	6,179,164	-	13,242,570
Expenses				
Program services:				
Public education	2,003,289	4,029,823	-	6,033,112
Outreach and advocacy	949,127	1,284,287	-	2,233,414
Public policy	1,481,966	1,435,292	-	2,917,258
Total program services	4,434,382	6,749,402	-	11,183,784
Supporting services:				
Fundraising	791,543	348,097	-	1,139,640
Management and general	280,296	335,669	-	615,965
Total supporting services	1,071,839	683,766	-	1,755,605
Total expenses	5,506,221	7,433,168	-	12,939,389
Change in net assets without donor restrictions	1,557,185	(1,254,004)	-	303,181
Net Assets With Donor Restrictions				
Contributions and membership	567,159	335,484	-	902,643
Foundation grants	-	1,546,686	-	1,546,686
Endowments and bequests	-	111,957	-	111,957
Released from restrictions:				
Satisfaction of program restrictions	(6,547)	(1,082,040)	-	(1,088,587)
Satisfaction of time restrictions	(1,401,149)	(1,482,410)	-	(2,883,559)
Change in Net Assets from Operations	716,648	(1,824,327)	-	(1,107,679)
Non-Operating Activities				
Investment return, net – without donor restrictions	76,243	496,431	-	572,674
Investment return, net – with donor restrictions	30,516	69,134	-	99,650
Total non-operating activities	106,759	565,565	-	672,324
Change in Net Assets	823,407	(1,258,762)	-	(435,355)
Net Assets, beginning of year	6,848,311	9,660,523	-	16,508,834
Net Assets, end of year	\$ 7,671,718	\$ 8,401,761	\$ -	\$ 16,073,479